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**Avoiding Bias
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**New Rules On Pre-Hire
Health Screening**

**Why Labor Aims
At The States**

Survival By The Numbers

*Entrepreneurs like
Mark Kominkiewicz
are adapting to
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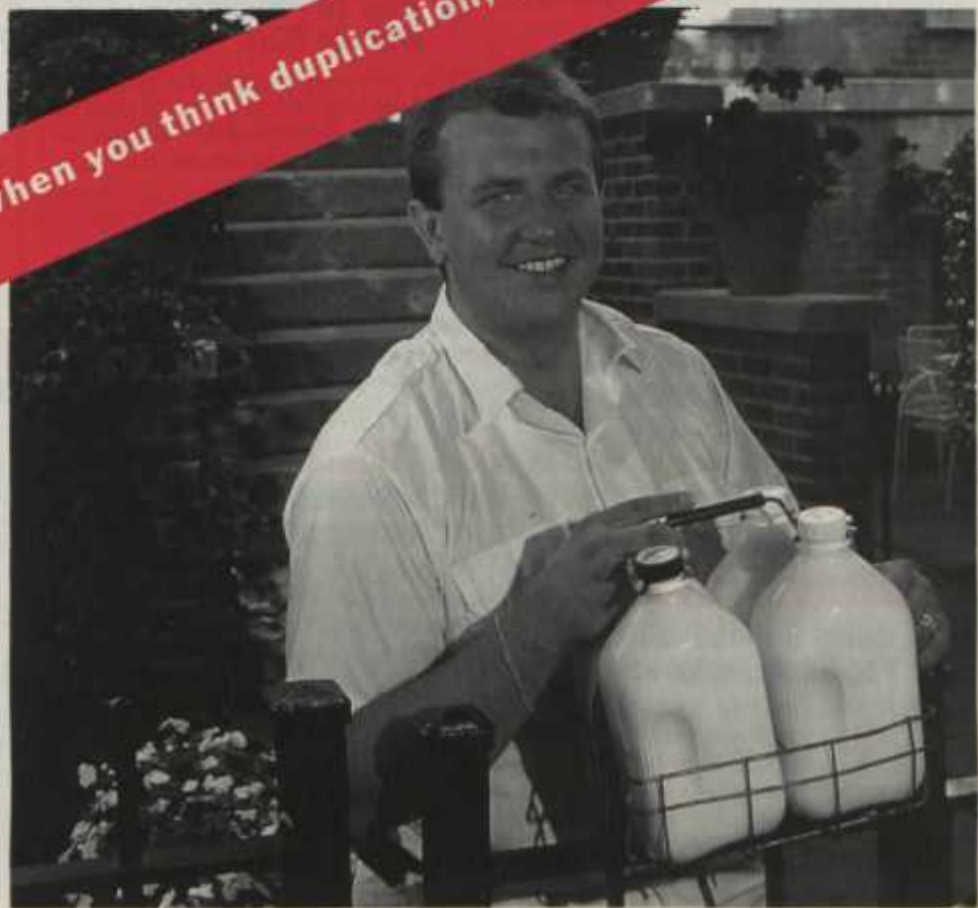
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PHOTO: ©JOHN BICH

Demographic changes present both opportunities and challenges to managers like Richard Loundy, chairman of Chicago's Devon Bank. He has diversified his work force to adapt to today's clientele. Cover Story, Page 14.



PHOTO: ©JAMES COOK

This union member's participation in a rally at a state capitol reflects a national trend. Labor, Page 22.

COVER STORY

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Shifting demographic patterns are reshaping the ways we live, work, commute, communicate, and spend money. These trends are challenging small businesses to alter their strategies or risk being left behind.

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60 On Monitoring Employees

Your response to this poll will be provided to key members of Congress as they consider legislation to restrict employers' rights to monitor workers' performance electronically.

Editor's Note

The Message In The Numbers

The 1920 census results showing that urban areas had surpassed rural communities in population were greeted with widespread disbelief.

Skeptics argued, among other things, that the urban count had been swelled by the large numbers of aliens in major cities and by the presence of farm workers in off-season jobs in the larger communities of the farm states when the tally was made in January.

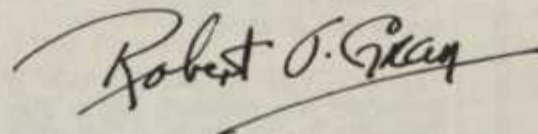
There was also the claim that the census reflected World War I dislocations still being reversed as rural dwellers who had gone to cities for defense jobs returned home.

Enough members of the U.S. House of Representatives held that the census was skewed to block the redistribution of House seats to reflect population changes. The next census, they said, would show that traditional patterns had been restored. The result was that the population patterns charted by the 1910 census set the makeup of the House through the 1930 election. And the 1930 census showed, of course, that urbanization of America had accelerated.

That experience with the 1920 census is probably the leading example of the ways that many people, some in high places, have managed over the years to deny the reality of demographic change. Our cover story this month, "Survival By The Numbers," deals primarily with individuals who have taken the opposite view. They are entrepreneurs who have recognized the extent to which changing demographics create markets for new products and services.

The article was written by William Dunn, who has been tracking, analyzing, and writing about demographic, lifestyle, and economic trends for more than 15 years. He brings that broad experience to our report on entrepreneurs who have found opportunities in demographic changes, and he also reports the views of experts on what can happen to businesses that don't keep in touch.

You're almost certain to find some ideas for your own business planning in this report on one of the most complex, dramatic, and exciting of all subjects—the American people.



Robert T. Gray
Editor



PHOTO: T. MICHAEL KEZA

Better than new: Co-owner John Ling of Scott Restorations inspects a vintage car. Making It, Page 12.

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The face of America: Changes in where and how we live can create business opportunities.

Nation's Business

Letters

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The Quest For Quality Is Not A Quick Fix

Thanks for the June cover story, "The Quest For Quality." A management-led focus on continuous quality improvement will lead to higher productivity, lower costs, greater customer and employee satisfaction, and better bottom-line results.

However, quality improvement is not



easy, nor is it a quick fix. Quality improvement is a marathon, not a sprint.

It takes commitment, coordination, and cooperation to make it all work.

William J. Conroy

Dean

The Quality College

Philip Crosby Associates, Inc.

Winter Park, Fla.

Juicy Comparisons

I certainly enjoyed the article on Stew Leonard. There's no doubt that he's doing a stand-up job in retailing. But your comments on his revenues and sales per square foot intrigued me. The picture of the produce section on Page 24 shows a half gallon of grapefruit juice selling for \$4.99. It's nearly twice what I'm paying in the Midwest.

If these are "low" prices in New England, no wonder his sales figures beat the rest of the country.

Scott D. Spencer

Corporate Cost Analyst

Industrial Tool & Machine Co.

Grand Rapids, Mich.

[Editor's Note: Standard brands of grapefruit juice regularly sell at Stew Leonard's for the \$2.50 a half gallon that Mr. Spencer is paying in the Midwest. The sign in the photo refers to fresh juice squeezed from Florida grapefruit in the store.]

Take A Gander At What's Sauce For The Goose

Your article on employee leasing ("Employees For Rent," June) was dated when talking about workers' compensation.

As of April 1, the National Council on Compensation Insurance says leasing companies cannot carry compensation on their leased workers. The responsibility is with the client company. The reason is to keep client companies from getting a break from high losses and rate modifiers.

However, the NCCI allows temporary-help companies full rein to staff entire high-risk departments in companies and assume the compensation responsibility.

Could the NCCI be policing the wrong industry?

Mike Clark

Vice President-Director

Business Affairs

Staffing-Link, Inc.

Louisville, Ky.

[Editor's Note: The NCCI's proposed rule on leasing companies carrying compensation insurance has been filed with the insurance departments in all but three states; it had been adopted in 16 states as of July 1 and was pending in the others. Its effective date in 14 states was April 1.]

Dangers In Packaging Insurance Accounts

As a 27-year underwriter of commercial accounts, I would exercise extreme caution before recommending the "packaging" of one's personal account with the business account ["Ways To Control Insurance Costs," June].

While such action might result in lower personal premiums, adverse activity on the personal account could jeopardize the commercial account.

Otherwise, the article was excellent.

James E. Majeskey

General Manager, Standard Markets

Aetna Commercial Insurance Division

Seattle

A Helpful Guide On The Clean Air Act

The article by Bradford McKee ["Clean-Air Rules Affect Small Firms," July] was one of the best summaries I have seen of the amended Clean Air Act and its impact on smaller firms.

Our multi-association management

firm represents two groups in the roofing industry, namely, the Asphalt Roofing Manufacturers Association and the Roof Coatings Manufacturers Association.

Both have a number of small firms as members, and both are very much involved in the amended act.

Your article is a great compliance guide and will be most helpful to them.

Richard D. Snyder

President

*AMG/Washington, Inc.
Rockville, Md.*

Not Just A Rose By Another Name

The excellent article "Achieving Access For The Disabled" [June] assists in communicating the abilities [of people who are disabled] and the worth of continuing to actively recruit and employ such persons. But it erred in consistently referring to this population group as "the disabled," "disabled employees," and

side; Instead of "normal" or "healthy," try "nondisabled."

Douglas C. Morse

*Chief Executive Officer
Industries, Incorporated
Mora, Minn.*

[Editor's Note: The official name of the law on which the article was based is "The Americans with Disabilities Act." While we are glad to afford Mr. Morse an opportunity to suggest alternatives to "confined to a wheelchair" and "paraplegic," it should be noted that neither term appeared in our article.]

Good Relationships In Family Firms

I was very impressed with the article "Ten Keys To Success In Family Business," by Sharon Nelson [April]. Since I plan to take over my father's businesses after college, this article helped me realize how the relationship between my father and me will have to be once I begin operating the businesses.

The article taught me how [family members] must respect one another and have good relationships so they can support one another in times of crisis.

Most important, the article taught me that [family members] must learn and grow together, as well as share power and values, in order for the family business to remain prosperous.

Dianna Plestis

Kirtland Hills, Ohio

This Is Easy? It's Certainly Expensive

I couldn't help but chuckle at the item in the June issue describing a training program costing about \$1,000 for people to learn Microsoft Windows ["Small-Business Computing"].

Since Windows is a graphical user interface similar to that which comes with every Apple Macintosh, the efficiency of paying as much to train on a copy of a product as it would cost to purchase the real thing is questionable, since Macintoshes are now available for around the same price.

I guess it would appeal to people who paid \$59.95 for their "Slim Whitman Sings the Beatles" albums.

Jerry Dykhuisen

*Florida Roofing and Sheet Metal
Contractors Association
Winter Park, Fla.*

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other forms of identifying people by a potentially limiting personal characteristic.

Don't label people as part of a disability group—"the disabled." Rather, say "people with disabilities."

It is better to think of an individual first, and then to identify a personal characteristic. By doing so, we overcome the attitude barriers that have developed in the past toward people who have a disability.

Thus, the preferred alternative to "confined to a wheelchair" is "uses a wheelchair."

Instead of "paraplegic," it's "has paraplegia."

And look at things from the other

Entrepreneur's Notebook

Delivering On A Guarantee: Perfect Service, No Exceptions

By Daniel V. Byrne

In 1984, when my gas-distribution company was small enough to be run from my basement and I still had some free time, I wrote down three operational keys to success. They were basic principles involving safety, quality, and service for employees and customers alike.

Safety, of course, is paramount to every business, but particularly so in my industry, where hazardous chemicals are part of everyday life.

Likewise, virtually every company considers quality and customer service cornerstones to success.

But as a start-up entrepreneur, I had decided to "put the customer ahead of everything else," and that promise was not easy to get across to potential clients. Although most industrial gas distributors sell a lot of gas and welding supplies to the construction industry, Byrne Specialty Gases was designed to serve a unique niche—laboratories and other operations that need high-purity bottled gases to keep vital work going. Since gas plays so integral a part in these operations, companies are reticent about giving their business to newcomers.

I knew that to succeed, I had to do something tangible to show employees and clients I was serious about my customer-service goals.

Then, in 1989, I read about a New Jersey gas distributor that offered customers a 100 percent service guarantee.

The concept was simple—and worth copying; here was an idea that would differentiate my company from the other guys, appealing to the specialty market that needed a higher level of service than I believed the competition was providing.

Within days, I wrote my own guarantee: The order would be right—done to the customer's satisfaction—or it would be free. There would be no excuses, no exceptions for bad weather, nothing to hide behind if problems arose.

My company, which then had six employees, was plunged into a promise of service perfection. Having spent my first five years in business living up to my operational goal of putting the customer first, I was confident we could do whatever was necessary to make the guarantee work.

Daniel V. Byrne is president of Byrne Specialty Gases Inc., 118 South Mead St., Seattle, Wash. 98108. He prepared this account with Nation's Business Contributing Editor Charles A. Jaffe.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

Obviously, offering—and providing—perfect service has tremendous marketing advantages. Customers are impressed by our ability to promise and deliver their orders on time, 24 hours a day, seven days a week.

But making the guarantee work operationally involves more than just telling employees to work hard and deliver on time. Although I can control certain types of deliveries—notably for cylinders we fill or gases we keep in stock—it's much harder to ensure that special blends, the high-priced end of our business, will be made in time for us to satisfy customers.

To do this and keep to our guarantee, we must communicate clearly with our suppliers, spelling out our needs to ensure an accurate commitment date.

Some suppliers overestimate their ability to deliver. Yet because of our guarantee, we simply cannot promise to deliver a gas in four weeks, for example, and have it show up two weeks late; we would have to give the product away.

Similarly, if we understate our ability to get the job done—promising delivery in eight weeks for a job that should take only a month—we risk losing the customer to the competition.

To walk this tightrope, we work with customers as well as suppliers to determine a commitment date. We frequently start with a range for delivery and, in the middle of the process, determine when the product will be ready. At that point, we make our commitment; the customer knows when to expect the goods, and we know what must be done to maintain our standards.

Not too long ago, a supplier called to say he was about to miss a delivery date.

It was a big order, and it was going to be late, giving the customer an obvious claim on our guarantee.

To avoid the problem, I asked the supplier to run his crew overtime if necessary to make our gas, and I offered to pay the overtime costs to get the job done. When the supplier realized that our on-time delivery commitment was that important to us and our customer, he finished the work at no extra cost, and the customer got the product on time.

Although we didn't incur the overtime, paying it would have been in line with our customer-service philosophy.

Simply put, the guarantee is the way I want to do business; it's how I believe companies should treat one another.

The guarantee certainly seems to have helped the company's growth; since its adoption, our staff and revenues have increased by about 50 percent. But it's the way we serve the customer that has been paramount to our success; the guarantee is a public declaration of the principles I jotted down back in 1984.

Don't talk customer service; live perfect service.



Daniel V. Byrne: "The guarantee is the way I want to do business."

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Managing Your Small Business

Office space a la carte, proving grounds for new hires, and details on drug-testing requirements.

By Bradford McKee

LEASING

Temporary Offices For Swing Space

Shared, temporary, or "instant" offices are increasingly popular among small firms reluctant to make long-term commitments for more permanent work space.

W.A. Hite International Inc., a management-consulting firm in Cleveland, has its five regional centers nationwide housed in flexible, ready-to-use offices leased from a shared-office company. The lessor not only provides the space but also supplies workers and office equipment at a "very controlled, fixed monthly cost," says Bill Hite, president of W.A. Hite.

Chicago-based Chappetto Systems Corp., which provides electronic links for financial traders, manages its own headquarters but leases shared space on New York's Wall Street and in Miami as needed. Ric Chappetto, president, says he'll keep the flexible lease indefinitely because the leasing company caters to his particular needs—letting him run dozens of large communication lines into the offices and allowing the firm 24-hour access to the building.

Instant offices are "booming," according to the Headquarters Companies, a franchised office-leasing company based



PHOTO: CHUCK ZANE

Bill Hite leases only the space he needs.

in New York. Headquarters Companies leases conference rooms on an hourly basis and offices by the hour, day, or month.

Likewise, InterOffice, a leasing company in Fairfax, Va., reports substantial leasing activity among its small-business clients.

For convenience, says Hite, you can't beat the flexible office: "I'm paying for what I need, when I need it."

TRANSPORTATION

Random Drug Tests For Some Commercial Drivers

About 200,000 employers of 3 million commercial drivers must begin random and post-accident drug testing of their drivers in September.

The exact date of the start of the tests has not yet been announced by the U.S. Department of Transportation (DOT), which will enforce the rules. The regulations have been held up nearly two years by challenges in federal courts.

The rules, which apply to interstate trucking, cover drivers of vehicles that weigh more than 26,000 pounds, carry 15 or more passengers, or transport hazardous cargo.

Nation's Business intern Alison Klein contributed to this month's column.

Employers must test all drivers, including contract drivers hired for more than 90 days, according to the following rules:

Random testing of at least 50 percent of eligible drivers per year (25 percent the first year of enforcement).

Biennial testing. The first test should be done during the mandatory routine medical examination. Employers may cease biennial testing once random-test programs are in place.

Pre-employment testing of driver applicants the employer intends to hire.

Post-accident testing of drivers involved in an accident involving death, injuries requiring medical treatment, or

SERVICE

Keeping Clients In The Loop

Not every business shares clients with its competition. For bed-and-breakfast owners Barbara and Henri Brod, however, sharing guests with four other Eugene, Ore., inns gives them strength in numbers.

Barbara Brod says that for several members of the local inn association, of which she is president, innkeeping is a side business. However, for others, like the Brods, the inn is their livelihood, "so we have to make it work."

One way she has found to make it work is to miss no phone calls. Since opening The Lyon and the Lambe Inn last August, the Brods have teamed up with other local innkeepers to share a phone loop for reservations.

Each inn in the loop has two phone numbers—its own and the group's. The loop is set up so that the group number starts at a different inn each week. Using call-waiting and call-forwarding, the group number rings at the first inn and then at the others in turn if no one answers after three rings.

When the inns are full, they also share guests. An inn that is completely occupied can forward its phone to the next one in the loop. Such sharing is typical of innkeeper camaraderie, says Barbara Brod. "B&Bs are renowned for working together."

at least \$4,400 in property damage.

Testing upon reasonable suspicion of drug use by an employee, when use is detected by a supervisor trained in spotting possible drug use.

Follow-up testing for up to five years for drivers who have returned to work after having tested positive for drug use.

Robert L. Duston, a Washington, D.C., lawyer who specializes in labor and management issues, says, "Most small employers who have drivers covered by DOT will know what drivers are covered."

To obtain additional information, call your regional Department of Transportation office.

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TRADEMARKS

The New-Name Game

Most firms use internal groups to come up with names for new products, according to a recent study of 600 companies by Rivkin & Associates, a Midland Park, N.J., firm of marketing consultants. Almost 70 percent of the companies had introduced new product names in the year preceding the study. Although three out of four used internal groups to come up with new names, many firms turned the task over to consultants or advertising agencies. (See the accompanying chart.)

Steve Rivkin, president of Rivkin & Associates, says companies should make sure new names created internally are not already in use by another company and legally protected. QED Environmental Systems, Inc., an Ann Arbor, Mich., firm, usually secures the names it wants because it chooses names that describe its water pumps and other products—generally the first of their kind. Nonetheless,

QED's patent attorney does a "cursory look" to rule out trademark infringement, says CEO Jim Bennington.

A firm that went outside to rename one of its products is Trillion Diamond Co., in New York City. The company hired a marketing firm to find a new name for one of its trademark Trillion diamonds. The company had registered its trademark, a triangular diamond, in the late 1970s, but soon others began using the name Trillion to refer generically to any similarly shaped diamond, says owner Marvin Finker.

Finker considered suing those who were trampling his trademark, he says, but he became convinced that it would be more cost-effective to use his legal budget to seek a new trademark for his gems. After considering several names, Finker says, he settled on Trielle, announcing to the trade and to the world that "trillion" as applied to diamonds is now a generic word spelled with a small "t."

Making A Name For Yourself

These are the ways that companies come up with new names for their businesses or products. Next to each method is the percentage of companies that said they use it. (Some companies use more than one method.)

Using internal naming group	77%
Modifying an existing name	43%
Hiring an advertising agency	40%
Holding an employee contest	24%
Hiring a naming consultant	11%

Source: Rivkin & Associates

SEPARATIONS

Make A "Clean Break" With Departing Employees

Employers who let laid-off employees use their old offices to look for new jobs are doing the individuals more harm than good, say outplacement experts.

It's generous to offer space, says Nancy Geffner, an outplacement specialist with Right Associates, in New York, but it's more important for the company that departing workers make a "clean break" as soon as possible. It's not good to have severed employees on the prem-

ises, she says. "It's far better to put them in an entirely new setting."

However, that new setting should not be an office where they can become so comfortable that they are not motivated to get a quick start on going on job interviews. "Offices become nests," says James Challenger, president of the outplacement firm of Challenger Gray & Christmas Inc., in Chicago. "Getting a job correlates with numbers of interviews. If you give them a nice environment to come to, they'll see less people" about getting a new job.

HUMAN RESOURCES

Trial Periods Can Cut The Costs Of Hiring

Probationary periods for new employees give employers a chance to see if a new hire is right for the job. However, it's best to have the employee agree in advance to the probationary terms, legal experts say.

New employees at Norton Manufacturing Co. Inc., of Fostoria, Ohio, which makes crankshafts, are hired for a trial period that enables the worker to determine the firm's expectations and the employer to monitor performance. David Laxton, Norton's operations chief, says talking individually with each new hire about performance goals helps the

employee improve before the 90-day trial period ends.

Such probationary periods usually boost performance, and they also can save firms money, according to experts in the field. Ballard and Sons of Charleston, Inc., a South Carolina contracting firm, pays for prospective employees to take a course in asbestos treatment and to have a physical examination before starting. "The work is so hard that some people quit after only a day's work," says Mike Ballard, head of sales and marketing.

If the employee quits the company within 90 days of starting work, Ballard says, the training costs are deducted from the employee's salary.

ORGANIZATION

Making A Century-Old Firm Run Like New

Faxon Co. Inc., a 110-year-old publications brokerage in Westwood, Mass., is "revitalizing" itself and its staff to compete in a modern market, says Gary Sibley, national service manager.

At Faxon, which distributes university publishers' titles, customer service is pivotal, "high-pressure work," he says. So the firm is drawing up "paraprofessional" standards to make Faxon more responsive to customers and employees.

Internal divisions are becoming more attuned to one another's operations. Faxon's five publications units all are served by a group of central offices, such as human resources and finance. Unit managers are giving the central-office staffs half-hour to 45-minute talks on what happens on the outside.

New employees get an orientation on the business and its clients. Another orientation session is held after a few months, Sibley says, because by then "they'll know the company better, and they'll have more questions."

Under Faxon's new sabbatical program, every employee with seven years' service can take off for two months with pay to relax and reflect, Sibley says.

Faxon urges employees to take risks and solve their own job-related problems if possible without waiting for a manager.

Sibley admits not all risks taken are successes, but Faxon is nonetheless awarding risk-taking employees a silver giraffe pin from Tiffany—to show appreciation to those who have stuck out their necks.

NB TIPS

✓ Want to know if you are eligible for an SBA loan? The U.S. Small Business Administration has teamed up with the National Business Association to offer free their **First Step Review**, a time-saving software program to help you figure your chances of qualifying for a loan from the SBA. The program, on IBM 5¼-inch floppy or 3½-inch diskette, or Apple Macintosh 3½-inch diskette, is available from the National Business Association, P.O. Box 870728, Dallas, Texas 75287; 1-800-456-0440.

✓ A *Small Business Guide to Employee Selection*, by Lin Gensing (Self-Counsel Press, Vancouver), explains how to find the best job applicants, what to include and omit on an employment application, how to interview effectively, and the 10 most common mistakes of employee selection. The 158-page book also discusses liability, training, and controlling turnover. The price is \$7.95, plus \$2.50 for postage and handling. To order, send a check or money order to Self-Counsel Press, 1704 N. State St., Bellingham, Wash. 98225.

Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger and Mary McElveen

LABOR

Postal Contract Settlement Is Victory For Business

An arbitration panel has granted the two largest postal unions only minimal wage increases over the next four years, and it has given the U.S. Postal Service much of the hiring, firing, and other management flexibility the service had sought to take greater advantage of its automated mail-handling equipment.



PHOTO: T. MICHAEL KEZA

Postmaster General Frank says settlement should help control costs.

TAXES

Once Again, Congress Eyes A Gas-Tax Hike

As the House prepares to act on a major highway bill, an increase in the federal motor-fuels tax is again under consideration.

Last year, Congress raised the motor-fuels tax to 14 cents a gallon from 9 cents, earmarking half of the increase for the highway trust fund and half for deficit reduction.

This year, Rep. Robert A. Roe, D-N.J., chairman of the Public Works Committee, and Rep. Norman Y. Mineta,

These actions have given business cause for at least guarded optimism that the depressing cycle of postal rate increases at double-digit percentages every three years may be broken.

The U.S. Chamber of Commerce, the only broad-based business group that opposed last February's rate hike and that supported the Postal Service's efforts to win cost-control provisions during subsequent arbitration hearings, welcomed the ruling. "It's good news," says Tracey Schreft, a Chamber lobbyist on postal issues. She says the approximately 6 percent wage increase over four years is "rather modest" and notes that the unions had sought an increase almost four times as large.

Schreft also hailed the arbitration panel's decision to let the Postal Service increase significantly its part-time work force and lay off workers with under six years of service. "Although we did not hold off a rate increase, this decision sets a positive precedent for future labor negotiations," she says.

Postmaster General Anthony Frank sees the settlement as a breakthrough toward his goal of holding down rates through containment of labor costs that have driven up charges to customers.

The most recent increase averaged 19 percent when it took effect last February under a decision by the U.S. Postal Rate Commission. The Postal Service's governors have rejected it as inadequate, however. The commission has the next move.

But the Board of Governors, if it acts unanimously, holds final authority to reject the commission's recommendations and set the rate schedule it wants.

ta, D-Calif., chairman of the Surface Transportation Subcommittee, said in late June they would propose another 5-cent increase. Mineta says a tax hike should be used only for improving roads and transportation.

Congress is expected to finalize a five-year highway and mass-transit bill this year. The Senate passed its highway legislation—which did not include a tax hike—June 19. Any differences between Senate and House measures will have to be resolved by a House-Senate conference committee before legislation goes to the president.

REGULATION

New Federal Rules Will Hurt Some Home Buyers

New regulations issued by the U.S. Department of Housing and Urban Development (HUD) will increase greatly the cost of buying and owning a home for tens of thousands of Americans, according to the Mortgage Bankers Association of America.

The new regulations increase sharply the cash requirements for obtaining Federal Housing Administration (FHA) insured loans.

Warren Lasko, executive vice president of the Mortgage Bankers Association, says the regulations, which are intended to strengthen the FHA, "will inevitably weaken it as the least risky borrowers opt out of the program."

The new rules, which took effect July 1, allow home buyers to borrow only 57 percent of their closing costs, while previously they could finance 100 percent of closing costs.

The new rules also require home owners refinancing existing FHA loans to pay a new higher monthly mortgage-insurance premium.

These new cash requirements go beyond the direction given to HUD when Congress passed the National Affordable Housing Act of 1990, says Lasko. He adds that the new rules are "an additional and unnecessary burden imposed by HUD on the home buyer."

RESOURCES

Updated OSHA Guide Details New Penalties

An updated information booklet on the Occupational Safety and Health Administration (OSHA) is available free from the agency.

The guide, *All About OSHA*, details new penalties and provides an overview of the agency's mandate, responsibilities, policies, and programs.

The publication also outlines requirements set forth in the Occupational Safety and Health Act.

Single copies of the booklet are available free by sending a self-addressed mailing label to the OSHA Publications Office, Room N3101, U.S. Department of Labor, Washington, D.C. 20210. Ask for *All About OSHA*, publication No. OSHA 2056.

Making It

Growing businesses share their experiences in creating and marketing new products and services.



PHOTO: T. MICHAEL KEZA

John Ling oversees painstaking restoration work on vintage cars.

Improving On Perfection

Scott Grundfor and John Ling own a small company in Panorama City, Calif. At first glance, it might seem that their firm, Scott Restorations, has a lot in common with the other automobile-related businesses nearby—body shops, a General Motors plant. Their mechanics work on more expensive cars than average, to be sure—Mercedes-Benz, Porsche, Ferrari—and their four-building complex seems almost supernaturally clean, but still, you could be forgiven for thinking that Scott Restorations is, at bottom, an exceptional paint and body shop.

But it's not; and not just because it attracts a gilt-edged clientele (earlier this year, comedian Bill Cosby had seven of his cars in the shop). If you want to find a true analog for what Scott Restorations does, you have to look away from automobiles and toward something like the Sistine Chapel.

Grundfor, Ling, and their 22 shop employees approach restoring vintage



PHOTO: LAMAR RICHARDS—SIPA

Scott Restorations is building a classic Mercedes from scratch.

automobiles with the same microscopic attention to detail that a team of art experts has brought to restoring Michelangelo's frescoes. And, like those art experts, Scott Restorations has sometimes been accused of "over-restoring"—of raising to a level of glossy perfection what once had at least a few warts.

True enough, John Ling says. As expensive as a 1955 Mercedes 300SL may have been in its day—selling for perhaps \$8,000—it and other luxury cars "were built as production cars, just like any other car," he says. "The paint jobs were not done to be perfect; every piece wasn't hand-fitted perfectly." What "over-restored" means, Ling says, is that Scott Restorations puts far more worker-hours into restoring the car than



Scott Grundfor, left, checks a rebuilt engine.

Mercedes-Benz put into building it. "Consequently," he says, "it looks better."

That is what customers want—and are willing to pay for, to the tune of \$150,000 to \$200,000 (or even up to \$500,000, when the car is a prewar classic) for a full-scale restoration, which can take as long as 18 months. The cars that emerge from such loving treatment are usually far too valuable—worth as much as \$1 million, or even more—to drive. They are works of art, show cars, to be admired rather than used.

Often, using them isn't even conceivable. Take, for example, the prewar Rolls-Royce that was in the shop recently, gleaming in its burgundy finish and looking for all the world like some prehistoric colossus brought startlingly back to life. As Ling says, "Would you give that to a parking attendant?"

Grundfor, 44, started the business. He put himself through college by doing paint and body work in his garage, and, he says, "I just stayed with it." In 1979, he sold the body shop, netting \$30,000, and used the money to start a restoration business. He met Ling—who owned a similar company in Milwaukee—soon after that.

Last year Ling, 45, sold his business to his employees so he could return to California, his home state, and become a partner in Scott Restorations. Grundfor "was looking for some help," Ling says; now he manages the shop while Grundfor deals with customers and attends auto shows. Their revenues totaled around \$2.8 million in the fiscal year that ended last February.

Most restoration shops specialize in certain kinds of cars—Ling's Milwaukee operation specialized in vintage race cars like Ferraris—and although Scott Restorations restores many kinds of cars, it is best known for its work with Mercedes. Roughly seven out of 10 of the cars in its shop bear the familiar three-pointed star. Grundfor says that his relations with Mercedes-Benz's own classic-car experts are excellent.

Within its specialty, Scott Restora-

tions subspecializes in the 300SL, which was built from 1954 to 1957 as a coupe—the famous "gull wing," with doors opening upward—and from 1957 to 1963 as a roadster.

By no means is every car that passes through Scott Restorations a show car; "a lot of our cars are put on the road," Grundfor says. Where such cars—they call them "drivers"—are concerned, Grundfor and Ling are willing to take some shortcuts that will save the owner money. For instance, if a car is going on the road, Grundfor says, "rather than take the body off the chassis and repaint the chassis and replace all the bushings, you leave the body on."

On the other hand, the label "show car" seems inadequate for some of Scott Restorations' products. Grundfor and Ling are now building, from scratch, an exact duplicate of the 300SLR—a hard-

top racing car that exists in only two other copies, both still owned by Mercedes-Benz. (Their machine shop can make any parts that are not available elsewhere.) The 300SLR will belong to an Australian collector who is a regular customer, and he will pay around \$750,000 for it.

Grundfor himself owns another valuable car, the prototype for the 300SL roadster; his mechanics are reassembling it, as work on customers' projects allows. He also owns a 1959 Jaguar coupe and a 1967 Mercedes. Ling owns 10 cars, including a couple of show cars.

For car fanciers, it might seem that the air at Scott Restorations is almost too rarefied to breathe, but Grundfor does step back to earth when he drives to and from work. His vehicle of choice is a 1988 Ford pickup.

—Michael Barrier

Music May Tame The Savage Breast, But His Diffusors Tame The Music

When acoustical expert Peter D'Antonio met with the music director and members of the Baltimore Symphony Orchestra, they all had good reason to wonder if they would be able to, shall we say, hear ear to ear.

Musicians and acousticians have "frequently frustrating relations," BSO Executive Director John Gidwitz explains. In judging the acoustics of a hall, acousticians rely on computer models, musicians on their ears. The two rarely agree.

D'Antonio came to Baltimore in 1989 to analyze the stage acoustics of the Joseph Meyerhoff Symphony Hall, completed in 1982. Although the acoustics there have always been regarded as exceptional from the audience's perspective, it was a different story for the musicians themselves: They were having problems hearing the music that they were making.

D'Antonio took a series of readings and recorded his results graphically. Meeting with conductor David Zinman and some orchestra members, D'Antonio predicted that his product, the RPG diffusor, would correct the acoustical faults onstage.

"What happened was quite dramatic," Gidwitz says. With the diffusors in place, there was what he calls "100 percent improvement" in the onstage sound. D'Antonio's diffusor had worked the same magic it had already worked on more than a thousand other sound-conscious environments.

D'Antonio's diffusors do their job by reducing the reflection and absorption of



PHOTO: ROBERT E. BURKE

Peter D'Antonio's diffusors, behind him, have won musicians' plaudits.

sound—in other words, they prevent sound from hanging around too long, as echoes, or disappearing too quickly. An RPG diffusor (RPG stands for "reflection phase grating") is an architectural panel, 1 to 2 feet high and about 4 feet wide. The diffusor consists of a series of grates, of equal widths but varying depths. When sound waves strike the diffusor, the panel's grates scatter the sound uniformly in many directions, just as frosted glass diffuses light.

D'Antonio, 49, a research physicist and musician, started his business at home in 1983. He had invented the diffusor in 1980, to correct acoustical shortcomings in his home recording studio. He realized that he needed something to diffuse the sound, he says, "but there were no diffusors. So I said, 'I know what I can do this weekend—build a diffusor.'"

He based its design on mathematical principles known since the 18th century but rarely applied to acoustics.

The diffusor is made of wood, plexiglass, or lightweight concrete, depending on the architectural context. Because it is passive, with no moving parts, wires, or circuits, D'Antonio says, the diffusor "stands in contrast to the electronics revolution."

Low-tech though its products may be, RPG Diffusor Systems Inc., D'Antonio's Largo, Md., company, has won wide acceptance in the broadcast, recording, and music worlds since he made his first major installation in the Hendersonville, Tenn., studios of the Oak Ridge Boys. Acoustical engineers have specified D'Antonio's diffusors at Carnegie Hall and the studios of NBC, CBS, the BBC, Telarc Records, and National Public Radio. His company's revenues have climbed above \$750,000 a year.

The Baltimore orchestra liked the diffusor so much that it plunged into using it. About two dozen diffusors sit on the stage of Meyerhoff Symphony Hall, waiting for someone to figure out how to install them permanently as part of the hall's architecture.

When the Baltimore musicians realized that D'Antonio's diffusors improved the sound exactly as his computer models said they would, Executive Director Gidwitz says, "their faces just lit up."

—Bradford McKee

Survival By The Numbers

By William Dunn



PHOTO: © ARNOLD ZANNI-BLACK STAR

Patricia DiMaria of Chicago's upscale Lincoln Park neighborhood is among the customers of the home-delivery service that Mark Kominkiewicz provides.

Hours before dawn five days a week, Mark Kominkiewicz begins making house calls in an upscale Chicago neighborhood. Except for that one time that he was mistaken for a prowler, people are delighted to know he's there.

He's their milkman, a 1990s reincarnation of a breed that had become virtually extinct because of competition from supermarkets and convenience stores.

Kominkiewicz, 25, had a job as a financial analyst, but he grew tired of office routine and decided he wanted his own business, so he started his Lincoln Park Dairy Service. He operates the delivery route, and his partner, Paul Yeh, manages the office. "Our appeal is on many levels—convenience, freshness, concern for the environment, and nostalgia," Kominkiewicz says. He began with 30 customers after do-it-yourself marketing research convinced him that there would be enough demand to launch a milk route. He now has 200 customers and is shooting for 1,600 by year's end.

The Chicago milkman says many of his customers are working couples with no children. Others are parents juggling careers and children, with little time or energy left to shop.

About the time that Kominkiewicz is wrapping up his morning deliveries in Chicago, a team of editors in Boston is reporting for work on the next issue of *Investment Vision*, a bimonthly magazine originally targeted to clients of mutual funds but now aimed at a larger although more sharply defined audience. "It's written for maturing baby boomers," says Jaime Bernard, marketing manager. "We feel we're occupying a niche in the marketplace that really hasn't been filled."

That market consists of America's biggest generation ever, the baby boomers, whose leading edge is now moving

Washington, D.C.-based writer William Dunn is the author of *The Layman's Guide To Demographic Information*, to be published in early 1992 by American Demographics Books, Ithaca, N.Y.

Changing demographic patterns are challenging small businesses to adapt or risk being left behind.



into middle age and grappling with such financial concerns as retirement planning, long-term health care for themselves and possibly for aging parents, and financing their own children's college educations at cost levels they had not anticipated 18 years ago.

Across the country in the booming suburb of Milpitas, Calif., yet another supermarket opens this month, but this one is different. Unlike its competitors, the Lion Food Center stocks a vast array of Asian foods and products.

"Our store is like a combination Safeway and a store you find in Chinatown," says David Tran, general manager of the family-owned market. This is the second such supermarket for the Tran family, which immigrated from Vietnam a decade ago.

The Trans are among the millions of newcomers who are making Asians the fastest-growing minority group in California and in the U.S. The family opened its first Asian market in San Jose in 1986. The business now employs 65 people and grosses \$10 million annually. Tran notes that some of his mostly Asian customers make four-hour round trips by car to shop in his market.

Although Kominkiewicz, the staff at *Investment Vision*, and the Tran family are in sharply different businesses scattered across the country, there is a common denominator to their decisions to launch their respective enterprises—the changing demographic patterns that are reshaping U.S. society and markets and challenging small-business people to alter their strategies to keep up or risk being left behind.

Vincent Barabba, former director of the U.S. Census Bureau and now General Motors' executive director of marketing research and planning, says that demographics "can offer the competitive edge."

But you don't have to be General Motors to use—or to need—demographics to stay on top or to catch up. "Demographics has a big place in small busi-

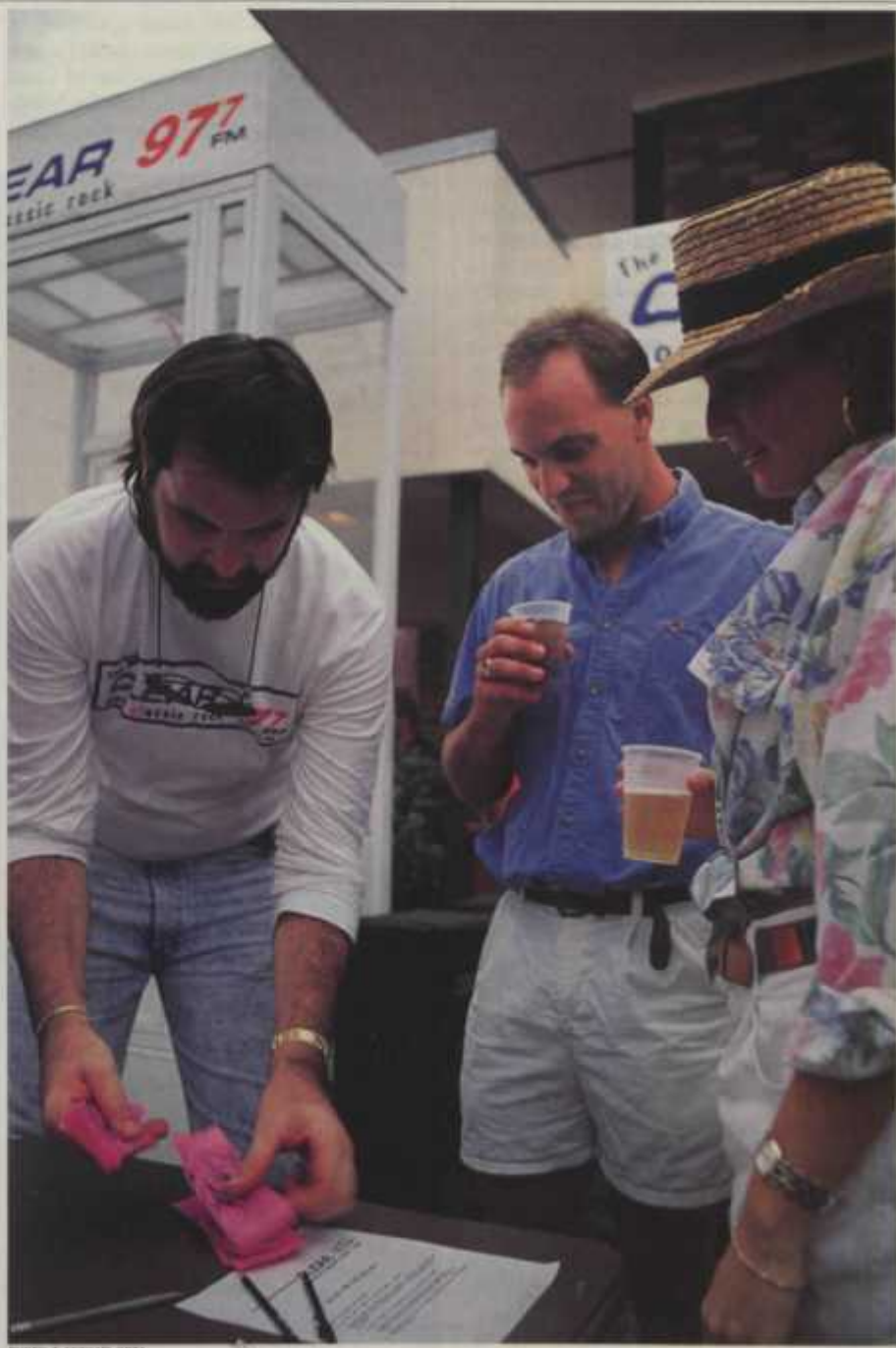


PHOTO: T. MICHAEL HEZA

Disc jockey Mike Jurian, left, at an event sponsored by his Florida station, says that demographics dictate his "totally classic rock 'n' roll" format.

COVER STORY

ness," says engineer Irwin Friedman of the Network of Small Businesses, a professional association of small firms, based in the Cleveland suburb of Lyndhurst. "Trend tracking can certainly give small business the edge," he says, "because the turnaround time is more rapid for a small business than a large one. The adjustment to reality takes place very quickly."

On the other hand, businesses that ignore population and market trends are "flying blind," Friedman says. "Unless they're lucky, they're gone in a year or two."

Small businesses that find the term "demography" too technical might be more comfortable with its definition—the science dealing with characteristics of human population. From the business perspective, some compare a demographic trend to a train: You have to find out where it's going and decide early whether to get on board; if you wait until the train is roaring down the tracks and gathering momentum, you've already missed it.

Demographics can spot and quantify trends in how we live, work, and play. And a gold mine of new demographic data is available in the findings of the 1990 Census. The latest population count shows, among other things, that the U.S. is becoming older and more racially and ethnically diverse.

Asians are the fastest-growing group, but Hispanics will likely surpass blacks around 2015 to be the largest minority. Labor shortages are developing in some sectors. Marriage is on the upswing, and divorce is leveling off. We're moving ever farther from the central cities, yet we're getting closer to water.

Those are just a handful of the myriad demographic details that will have an impact on business decisions into the coming century.

The importance of demographics started becoming apparent to the business world in the mid-1960s, Friedman says, when the U.S. was hit by the so-called "baby bust"—the plunge in the number of births. For 19 years before that, the postwar baby boom fueled expanding markets for everything from diapers, bluejeans, and portable classrooms to sports cars, mortgages, and starter homes. Businesses had difficulty keeping up with demand and little time for planning. Many people just assumed that growth would simply continue.

Then came the birth-control pill, liberalized divorce, and new attitudes that saw women launching careers and postponing motherhood. After having peaked at 4.3 million in 1957, births had dropped below 4 million a year by 1965. Many dismissed the drop as an aberration.

But the free fall lasted through 1976, when births bottomed out at 3,168,000. Many firms were caught off guard, as markets stopped growing or began contracting. Competition became fierce; to grow now meant taking business away from rivals or diversifying.

In effect, demographic analyses come down to relationships—the present to the past, and the combined past and present related to the future. "To know where you're going, first you have to know where you've been," says Peter Bounpane, assistant director of the U.S. Census Bureau.

Here's where we've been lately: The United States grew by 22.2 million people from 1980 to 1990, gaining almost as many fledgling consumers and future workers as the entire population of Canada right now. But there's a flip side. The 9.8 percent growth rate—also equal

to the potential growth rate of the market for consumer goods and services—was the second-slowest in 200 years. Only the Depression decade of the 1930s was slower.

The Sun Belt is still growing, yet there are pockets of slow growth or no growth in some of those states. Nationwide, jobs as well as individuals are going to the suburbs, where new cities are emerging. Many old, central cities continue to lose people. Yet New York and some others reversed the slide and actually grew, thanks to immigration. Without continuation of the new wave of immigration now under way, the total population could actually begin shrinking in 50 years.

Births in 1990 hit a 27-year high—demographers call it the "echo baby boom"—but experts say it won't last long.



PHOTO © WOLFGANG KOCK

Trekking in the lowlands is becoming more appealing to maturing baby boomers as an alternative to mountain climbing.

For small-business people, these and other demographic trends evolve into specific challenges dealing with changing consumer preferences, marketing strategies, business locations, and the availability of workers.

Here are details on demographic developments of top concern to business and examples of how innovative entrepreneurs have adapted to benefit from them. These accounts should give you some ideas for making the most of demographic developments for your own business.

The Original Baby Boomers

They've been described as a "pig in a python," the big bulge that has been moving through the age brackets of the U.S. population in recent decades. They are the 76 million Americans of the original baby boom, born from 1946 to 1964. They now represent 31 percent of the U.S. population.

Many boomers grew up living for the moment, listening to blaring rock music, trying to save the world, and not trusting anyone over 30. Now, those born in the boom's first five years are in their early to middle 40s, the substantial number born in the 1950s are "thirty-something," and the youngest of the boomers are in their late 20s. What most have in common today is an interest in fitness, finances, and the family.

Changing Priorities

"The baby boom now has children to protect," says Cheryl Russell, an author on population trends and an authority

on that generation. "They've become cautious. They've always been self-centered, and now they have extended that to their children, families, and home."

Russell, herself a boomer and author of *100 Predictions for the Baby Boom*, (Plenum; New York City) writes in her book: "The home will symbolize the social stability of the next few decades. It will be the center of American life, equipped with VCRs, home computers, compact-disc stereo systems, cable television, large-screen and pocket-sized televisions, security systems, answering machines, microwaves, exercise equipment, and a host of new technologies not yet on the drawing boards. Middle-aged consumers, short on leisure time and busy raising children, will spend more time at home. The businesses that catered to the young adults (such as singles bars, Laundromats, and ski resorts) will have to change their strategies."

Clearly, it's good news for home remodelers and contractors, for makers and marketers of electronics products, and—because appearance-conscious boomers are graying at the edges and beginning to bulge—welcome news too for fitness clubs and makers of exercise equipment.

Although the home is becoming an electronic castle, buying the home of their dreams is increasingly tough for couples. Thus many are staying put in their present homes and expanding and remodeling.

Seeing an opportunity there and wanting to go "into a different gear," John Lorenz last year left the vice presidency of a 50-person architectural firm to launch Weekend Projects Inc., in a

suburb of Washington, D.C. Unlike other contractors, he works alongside homeowners. "We provide the extra pair of hands and the technical skill," says Lorenz. Customers complete the project for less money and get the satisfaction of building their own dream houses.

The health-conscious among the boomers, who gave birth to the environmental movement, are now increasing the demand for—and the sales of—more natural and less processed foods, everything from high-fiber cereal to low-fat ice cream. And the trend is spilling over to children of boomers.

Family Patterns

While boomers have been slow to start families and are having small ones, they're now eagerly shopping for their young children. Yet the fact that they're having small families doesn't mean they're spending less than parents did a generation ago. Rather, it means boomer parents can afford to spend more on each child.

The boomer parents' purchasing patterns also extend to clothes. "Married couples with kids are spending as much on clothes as couples without kids," says Russell. "But those with kids are spending it on children's clothes. This is a shift in priorities that a lot of businesses are not yet aware of."

Currently, boomers are having an average of about 1.8 children per couple, down from the peak of 3.7 in the mid-1950s. Yet the U.S. is now in the midst of a temporary "echo baby boom." Births have been rising for the past several years, and they reached 4,179,000 in 1990—the highest total since 1963.

This echo boom, which began just after the baby bust, is being fueled by the women who were born in the original baby boom. Having postponed marriage and motherhood to launch their careers, they now are having children, racing against their biological clocks. Even though they're having small families, there are so many of these women that they have caused a jump in births. The boom will be short-lived, however, because these women will soon begin moving beyond their childbearing years.

Nonetheless, the echo boom will be another ripple for smart marketers to follow through the life cycle with age-specific goods and services.

Walk, Don't Climb

Meanwhile, the travel and holiday industries are scurrying to adjust to the demands of the aging boomers, with their busy schedules and busy offspring. At Mountain Travel, a pioneer in adventure travel, its president, Richard McGowan, says the company has "grown over the years by segmenting,



PHOTO: CHRISTOPHER HILGREN

Richard McGowan, second from right, president of Mountain Travel, and his staff track demographic changes as part of their strategic planning.

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PHOTO: GORDON ZICH

by having something available as the baby-boom generation moved into maturity. It might not be a strenuous trip to the peak of the Himalayas, but four days trekking in the lowlands where you get the flavor of the whole thing." McGowan's company, in El Cerrito, Calif., just acquired another firm, which will offer more and shorter domestic adventures, such as shooting the Colorado River rapids. Sales are expected to reach \$12 million this year, up from \$2 million a decade ago.

Although many boomers are in their middle years, their ears are tuned back a few decades. Nostalgia is hot, especially in music. More than 1,150 U.S. radio stations—12 percent of the total—now spin mostly oldies or "classic rock," double the number five years ago. One of the latest to switch is WLCL-FM, in Gainesville, Fla.

"The music is totally classic rock 'n' roll—'60s through the '80s," according to Mike Jurian, WLCL disc jockey and general manager. "You have to look at the demographics: Seventy-three percent of the [metropolitan Gainesville] population is between 18 and 49. The most desirable demographics to go after, in most cases, is usually 25 to 54, because you're looking for those qualified buyers who have money, college education—the yuppies."

While they dial back in time for their music, boomers are also thinking about their own futures—if belatedly. They're juggling the expenses of childrearing and the pressing need to start a nest egg for retirement, which may come before age 65 because of the growing volatility of the job market. Banks, brokerage houses, and independent financial planners and accountants are all rushing

Racial and ethnic diversity in his work force helps bring in new customers, says Richard Lowndy, chairman of Chicago's Devon Bank.

to serve this vast boom market with annuities, mutual funds, insurance policies, and growth stocks.

The boomers are strapped for cash now, but that may change. Marketing expert Ken Dychtwald of Age Wave, an Emeryville, Calif., firm that advises business and government on the implications of an aging population, notes that the boomers' own parents were thrifty and saved, and they realized tremendous appreciation on homes bought in the 1950s. "People 65 and older own \$3 trillion to \$4 trillion in wealth and assets," he says. "Many are going to be passing on. And you'll see \$3 trillion to \$4 trillion in cars, insurance, stocks, and homes come cascading down to the boomers."

After knocking themselves out in the 1980s advancing their careers, many worn-out boomers will be easing up on their grueling work schedules in the 1990s and rediscovering the joys of hobbies.

"Instead of going to the office Saturdays or staying late Thursdays, they're carving out three- or four-hour chunks for piano lessons, gardening, or cooking school," says Peter Moore, a managing partner of Inferential Focus, a New York City firm that performs market analyses for clients.

Peter Dickinson, 64, semiretired in Prescott, Ariz., has almost 100,000 subscribers for his *Retirement Letter*. His readership is getting younger and includes many boomers; one reader is 30.

City Dwellers March To The Suburbs

It's 8 in the morning. Stores and offices on the tree-lined suburban streets of Troy, Mich., are open for business, and the traffic is heavy. The commuters are on their way to jobs at K mart's headquarters, or the Volkswagen corporate offices, or the upscale Somerset Mall, or the hundreds of small companies tucked away in landscaped office parks.

"When we moved here 15 years ago, this was a fairly rural community; we were on the edge of suburbia," says Norma Machado, an executive with a group-insurance firm.

Once a town in the middle of farmland, Troy has mushroomed into a major employment center with more than 109,000 jobs—and the traffic congestion to go with it. "And they're still building," Machado says. "But the roads haven't been expanded to accommodate the growth." Though she lives only a mile and a half from her office, Machado's drive to work sometimes takes 15 to 20 minutes.

About 10 miles away, Detroit resident Anthony Johnson, who doesn't have a car, hops into a 15-passenger van for the commute to his suburban job. "Inside the city of Detroit, there are not many full-time jobs," says Johnson. "There are lots of jobs in the suburbs, umpteen million. The problem is getting to them. The van solved the problem for me." Suburban employers partly subsidize this and several other area vans. Riders from the city pay modest fares.

Welcome to suburbia of the 1990s, the new address to work as well as live. "The suburbs are no longer 'sub' to the 'urbs,'" says University of Miami geog-

rapher Peter O. Muller. Across the United States, the traditional metropolitan configuration of one dominant central city is giving way to what Muller describes as the "pepperoni pizza," in which several suburbs within a metropolitan area evolve into major job centers.

In addition to Troy, such centers in the metropolitan Detroit area include Southfield, Novi, Sterling Heights, West Bloomfield, and Auburn Hills, all competing with one another as well as with Detroit.

The same development is occurring in Fairfield County, Conn.; Tysons Corner, Va.; Gwinnett County, Ga.; Naperville and other northern Chicago suburbs; the corridor between Seattle and Tacoma, Wash.; Houston's Galleria area; Mesa, Ariz.; and throughout Southern California into the desert.

From 1980 to 1990, nonagricultural employment in the United States grew by 19.9 million, reaching a total of 110.3 million workers.

Economist Nestor Terleckyj, who does job and population projections for NPA Data Services, in Washington, D.C., calculates that 64 percent of those new jobs were created in suburban counties, 24 percent in central-city counties, and 12 percent in nonmetropolitan or rural counties.

Why so many new jobs in suburbia? Terleckyj cites the highway network, proximity to regional airports, and affordable, wide-open land that can be developed from scratch. Also, it's where a growing majority of people—and therefore workers—live.

The Growing Suburbs

Troy, an attractive new suburb of landscaped office parks and moderately priced to expensive homes, is 16 miles north of the Detroit River, just off Interstate 75, which reaches all the way to southern Florida. From 1980 to 1990, jobs in Troy grew 67 percent, according to the Southeastern Michigan Council of Governments. That's over three times the U.S. growth rate. During the same period, the city of Detroit lost 104,000 jobs, or 21 percent of its total employment.

Jack Butler, whose computer-graphics firm outgrew its original location in his Detroit home, moved the business to Troy four years ago. "Our customers were out here, and we couldn't find any safe place in the city to put a quarter of a million dollars' worth of equipment," says Butler. He's satisfied with Troy, except for the rush-hour traffic. "There is real gridlock, but we 'flexed' our hours to avoid it."

The evolving suburban economy in Troy, as elsewhere, is a mix of services, light manufacturing, and retailing. Many

retailers cater to the hectic suburban lifestyle of the 1990s: VCR rentals, computer stores, gourmet shops, malls, and a culturally diverse mix of restaurants.

Yet Troy, like other suburban cities, has no traditional downtown and very few sidewalks. Unless they brown-bag it, workers must commute to lunch. When the clock strikes 12 noon, people reach for their car keys, unless, of course, they call Door 2 Door.

"They just give us a call, and they get their favorite restaurant meals delivered to them," says Bob Berriman, a manager at Door 2 Door. Started two years ago, Door 2 Door has about 60 employees shuttling lunch and dinner from dozens of restaurants to offices and homes in 12 Michigan suburbs for the price of the meal plus a \$2 service charge and a gratuity.

While America's suburbs offer employers less crime, red tape, and bureaucracy than many central cities, the emerging suburban cities are not without problems such as urbanization, demand for expanded municipal services, tax increases to pay for them, and intense competition among the suburbs for tenants, who freely hopscotch from one office park to another when leases run out.

Troy, with an upscale residential population of 73,000 and a work force of 109,000, still operates with a volunteer fire department. The town's 50 baseball diamonds are in such demand by Little Leaguers and corporate teams that

many games are played under the lights, and lotteries are held to decide which corporate teams can use the fields.

The Mileage Gap

Mass transportation offers only modest hope to the sprawling suburbs' traffic and transportation problems. Mass transit worked well when almost everyone headed each morning to offices and factories in the downtown of central cities. But "metro areas have been turned inside out," says geographer Muller. Buses and trains are having an increasingly hard time bringing workers and shoppers to businesses scattered throughout a metropolitan area. The automobile becomes almost essential, and the lack of a car becomes an obstacle, especially for inner-city residents who desperately need work.

Voicing a common complaint of many urbanites, Anthony Johnson observes: "If you don't have a car, you can't work that job."

In high-cost suburbs such as Fairfield County, Conn., Princeton, N.J., and vast parts of Southern California, there is the added problem that many clerical employees and other lower-paid workers cannot find affordable apartments anywhere near their jobs.

In Southern California, those working in Orange and Los Angeles Counties have gone a hundred miles into the desert to find affordable housing. This has given rise to the desert community of Moreno Valley, one of the nation's fast-



PHOTO: BILL WARDEN

"The center of American life" will be the home, says author Cheryl Russell, at home in Ithaca, N.Y., with husband Rick Eckstrom and son Sky.

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est-growing towns during the 1980s.

In the New York area, the daily commute is two hours each way by car or bus for the hundreds of workers whose jobs are in the city and who live in Pennsylvania's distant Pocono Mountains.

In the Detroit area, the Southeastern Michigan Council of Governments runs a telephone hot line to match up people in car pools in hopes of getting them to work. And the transit authority has changed some bus routes, with limited success. Employers too have responded by working with various contractors and entrepreneurs to run shuttle van services to and from work.

Entrepreneur Dan Williams Jr., who runs a garment business in Detroit, three years ago launched Jobs Employment Transportation Services (JETS). Working with suburban employers, he recruits city residents and then transports them to work in a fleet of 15 passenger vans. "Every time I travel out of the city, I find 'Employee Wanted' signs all over," Williams says. "And I'd come back to Detroit and find tons of people who had no jobs. I said, 'Let's see how we can solve this.' We put the people and the business together."

The experiences in suburban Detroit are being repeated throughout the United States. Hundreds of entrepreneurs like Williams have popped up in city after city to shuttle people to suburban jobs. Some 15 percent of the work force now operates on flextime, which permits workers to choose their starting times for work within a certain range. This in turn spreads commuting into off-peak hours.

To encourage ride sharing, many businesses save the closest parking spots for car pools and van pools. Varian, a Silicon Valley computer firm, raffles off vacation trips for those who use alternative transportation.

Work-Force Diversity

The push to suburbia has clearly been at the expense of battered central cities such as Detroit. Among those leaving for the suburbs are growing numbers of middle-class black families. Left behind in the cities are poor minorities and older whites, along with new waves of immigrants, primarily Latin and Asian.

Central cities, despite whatever crime problems they may have, are responding by touting themselves as mature cities with the infrastructure and historic office space available at favorable rents.

Those cities are also magnets for many immigrants, gravitating to where rents are cheap and their countrymen already have a foothold. After they arrive, they set up mom-and-pop businesses, and, in the immigrant tradition, they

get the whole family working and turn a profit on a shoestring. Often, they cater to other immigrants in their particular ethnic community.

It can be tough competition for long-time merchants, and there have been clashes. But immigration is helping repopulate and re-energize many central cities.

At the Devon Bank on Chicago's North Side, for example, service is offered with a smile and in any of 30 or more languages, if necessary. "It's made me brush up on my English," jokes the bank's chairman, Richard Loundy. "I find I don't use a lot of slang, so I'm not misunderstood."

As recently as the late 1960s, the bank's staff was entirely white. Now 10 percent of its 124 employees are black, 6 percent are Hispanic, and 19 percent are Asian. One-third of the employees are foreign-born, and 65 percent are women. "We have our own little melting pot right here," says Elizabeth Soter, the bank's senior vice president. "This happens to be a very diverse area." Once mostly Irish, German, and Jewish, the neighborhood has become increasingly Asian, Hispanic, and East Indian.

Like North Side Chicago, America too is becoming ever more diverse racially and ethnically. And the growing diversity of the work force will pose challenges and opportunities for business.

"You have to adjust to accent and lack of English ability until it develops," says Loundy. "We've given courses here—English as a second language. And you may have to adapt your training to cover [employees'] lack of information on your industry."

The bank's diversity has been good for business, Loundy says. "Employees

will bring in their friends and relatives, saying, 'This is a good bank; I work here.' We get good customers that way."

Not only must workers adjust to their work environment, but also smart business executives must learn the ways of their changing work forces and neighborhoods. One Chicago banker lost a Korean depositor's account after making a friendly beckoning hand gesture to the depositor—a gesture that is decidedly rude to Koreans. The Korean transferred his business to Loundy's bank.

The growing diversity of the work force reflects changes in the overall population attributable not only to immigration but also to the higher fertility rates among some groups. From 1980 to 1990, when the U.S. population increased 9.8 percent to 248.7 million, whites grew by 6 percent while blacks increased 13 percent, Asians, 107 percent, and Hispanics, 53 percent.

Between 1980 and 1990, net immigration accounted for about 30 percent of population growth. That share will likely grow in coming years as the population ages and as growth attributable to births slows still further. Without substantial levels of immigration, Census Bureau projections show, the U.S. population actually will shrink after the year 2040. A shrinking population would mean a shrinking economy and a smaller work force.

Unlike times past, when immigrants were mostly European, three-fourths of today's immigrants come from Asia and Latin America. More U.S. immigrants come from Mexico than from any other country.

In *Outlook 2000*, a 1990 report from the Labor Department's Bureau of Labor Statistics, it is forecast that by the



PHOTO: T. MICHAEL KEZA

Contractor John Lorenz works alongside homeowners in a Washington suburb, helping them build their dream houses.



PHOTO: SANTA FE/BLACK STAR

Dan Williams Jr. started an employee commuter service in Detroit to match suburban jobs and city dwellers looking for work.

year 2000, blacks will account for 12 percent of the work force, Hispanics, 10 percent, and Asians, 4 percent. By 2000, women will make up 47 percent of the work force, although many of them will be working part time, juggling jobs and family responsibilities.

At the same time, the pool of young workers ages 16 to 24—the primary source of unskilled, low-wage help—will drop to 16 percent of the work force by 2000, down from 24 percent in 1976 and 20 percent in 1985.

The growing number of women workers presents its own challenges. Since many have children, that will increase demand for child-care services as well as part-time, job-sharing, and flextime schedules. (By 1988, one-fourth of all female workers had part-time jobs. The rate rises significantly for women with preschool children.)

Flextime is a way of keeping an office functioning over a larger span of hours than would be possible if all employees worked the same hours. Part-time workers can reduce company overhead because they typically do not receive medical or pension benefits.

Look for more older employees, many of them semiretired, to take part-time work as a way to keep active and to supplement their incomes. This is one way to counterbalance the deepening shortage of young, low-wage workers. While McDonald's, for instance, has certainly made effective use of older work-

ers at its restaurants, one of the first companies to hire older workers was Ferti, a small potting-soil firm that a retired engineer in Connecticut started in his garage in the 1970s. After having difficulty finding dependable young workers, he turned to seniors, who proved productive, dependable, and content to work for the minimum wage.

Yet workplace diversity can present problems. As the labor force becomes more diversified, employers need increasing numbers of workers for technology-based jobs that require skills lacking in many immigrants—and in many native-born Americans who attended public schools.

In response, companies large and small across America are going directly to the schools, getting involved in course design, career counseling, and mentoring programs. "They're looking for a better product, a graduate that's prepared for the business world. They're becoming a full partner in our schools," says Brian Cram, school superintendent for Nevada's Clark County, one of the nation's fastest-growing school districts. Some 30 local businesses, ranging from high-tech companies to shopping-mall retailers, are involved in Clark County schools, which serve metropolitan Las Vegas, now seeing an influx of companies from California.

Even in the basic trades, employers increasingly are becoming educators out of competitive necessity. "Now, more

and more, you find motivated, intelligent individuals that you simply are going to have to train," says Dick Maresco, vice president for education at Washington-based Associated Builders and Contractors, which represents 17,500 construction firms. They are "now having to teach basic math, even give reading tests as a qualification for training," Maresco says. "Unfortunately, we're having to do the things we hoped the schools would do."

The association offers its members training manuals in various building trades and in basic math.

Although diversity will put added training burdens on employers, the new workers will give employers an extended range of resources to deal with change not only at home but also in the global markets that increasingly affect American businesses. "We figure we're the bridge between the United States and Latin America," Hector Barreto of the Hispanic Chamber of Commerce says of the organization's member companies. "We not only speak the language, we also understand the ways of business."

The Pacific Rim countries already constitute a major force in world trade, and Americans of Asian descent will make important contributions to U.S. employers doing business with that formidable economic bloc.

The same principle applies to other ethnic groups: America's best trade representatives of the future may well be working today in the plants, offices, and shops of small businesses.

The demographic factors that expand the horizons of business leaders such as Hector Barreto and spark entrepreneurs such as milkman Mark Kominiewicz and grocer David Tran are far removed from the days when business first began to recognize the extent to which population factors could pose both problems and opportunities.

The pioneers included Gerber Products, the baby-food maker based in Fremont, Mich., which used a somewhat primitive form of demographic research 60 years ago. When Gerber entered a town in the 1930s, the company's representatives would count the houses with diapers on the clothesline before calling on local merchants. They used the diaper count to show retailers the potential market for Gerber products.

David Tran's description of his own business sums up the key factor that all entrepreneurs must keep foremost in mind as they seek ways to benefit from demographic change:

"We fill a need."



To order reprints of this article, see Page 61.

LABOR

Labor Targets The States

By David Warner

At its peak strength in 1945, organized labor represented 35.5 percent of all employees. Today, that share is 16 percent.

This decline has been accompanied by an erosion of big labor's ability to influence events in Washington.

Indeed, the AFL-CIO has already lost a fight this year on one of its top three legislative priorities in Congress—it failed to keep Congress from approving fast-track authority for a trade agreement with Mexico—and it is likely to lose on the other two. One is its drive to prevent employers from hiring permanent replacements for strikers. The other is anti-discrimination legislation that business says would establish hiring quotas.

With its clout in Washington waning, labor is intensifying efforts at the state level to demonstrate that it can still deliver to its members on issues affecting them. The clashes that inevitably result from labor's efforts to serve its own economic interests through government action have been shifted now from Washington to the state capitals.

Patrick Leiser, senior vice president of a northern California firm in the construction industry, is one of the businessmen on the firing line in the state-based battles. "They've cost my company more than a million dollars in profits over the past year and a half," he says of the unions in northern California.

His firm, PetroChem Insulation, in Vallejo, Calif., insulates boilers and pipes for power plants. Leiser says the company has lost contracts on several northern California projects as a result of the unions' activities.

Leiser is up against a union tactic designed for the state arena. In that approach, environmental and other regulatory procedures are exploited to delay approval of construction permits to give unions time to gain concessions from developers. PetroChem has filed a suit against the Northern California and



PHOTO: ELIAMES COOK

The AFL-CIO in Colorado staged a rally to urge Gov. Roy Romer to veto a bill designed to curb rising costs of the state's workers' comp system. He signed the bill.

Northern Nevada Pipe Fitters District Council 51 for "extorting the owners to sign" with the unions or face costly delays in obtaining official approval for projects. Leiser states: "They're extorting the owners to sign with them or pay the consequences—delay of their construction permit."

Union strategists turn to the states as labor's clout in Washington declines.

The unions in California also are pushing local governments—city councils, county boards of supervisors, and redevelopment agencies—to adopt prevailing-wage ordinances that cover private-sector construction jobs. Currently, such statutes are limited to projects that receive federal or state funds.

Labor's national leadership gives the state strategy a high priority. The AFL-CIO has established an Office of State Government Liaison at its headquarters in Washington, D.C.

"There is increased attention being paid by the national unions to state activity," says Kevin Kistler, coordinator of the state office. He notes that the office was established to "package our efforts in a more visible way, to coordinate information sharing among and between the state [AFL-CIO] federations, and to give them a little research and technical assistance from the issue people in headquarters."

While labor has long had a political presence in the states, it has historically looked to Washington for its principal legislative reinforcement. Starting in the 1930s, labor won passage of protective laws that cleared the way for the unions' greatest era of winning new members and gaining benefits for them.

The legislation included the National Labor Relations Act, the basis for the modern labor movement. It led to the extensive unionization of large segments of U.S. industry in the 1930s and World War II years because of the requirements it imposed on employers to recognize and negotiate with unions.

Other legislative victories were the Fair Labor Standards Act, which set wage-and-hour requirements (including the minimum wage), and the Davis-Bacon Law, which effectively mandates union pay scales for construction projects involving federal funds.

Unions continued to post victories on Capitol Hill until the mid-1970s, but several factors have forced labor to in-



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LABOR

crease its activities at the statehouses in recent years. "On the federal level, unions have not won any significant victories in a long time," says Stephen Moore of the Cato Institute, a Washington, D.C., public-policy organization, and he says unions "may be seeing a bit more receptive audience in state governments than they are on the national level."

Says former National Labor Relations Board member Rosemary Collyer: "Having failed to get labor-law reform passed in 1977 and then [having] failed in recent years to get various amendments to the National Labor Relations Act passed on Capitol Hill, [unions] I think decided that it's better to have some [worker] protections in those states that will listen than to break their picks up on Capitol Hill all the time."

(The labor-reform legislation to which she referred would have, in essence, made it easier for unions to organize workers and harder for employers to resist those efforts.)

While labor's federal agenda continues to run into stiff opposition, a similar menu has received a good deal of attention in state legislatures. For example, bills to restrict the rights of employers to replace striking workers were introduced in 14 state legislatures during their 1991 sessions. Several of the measures are still being debated, and Minnesota's striker-replacement legislation made it to the governor's desk. (Gov. Arne Carlson vetoed the bill in early June.)

At least a dozen states considered legislation that would give certain groups, usually teachers or state and local government workers, monopoly bargaining power or that would repeal right-to-work laws, which protect workers from being forced to join a union.

Labor also has been involved in workers' compensation and unemployment compensation battles in state legislatures throughout the country. In New Jersey, for example, unions are pressing for legislation to grant unemployment compensation to striking workers. In Rhode Island, where the policy of paying jobless benefits to strikers was eliminated six years ago, unions fought for partial restoration, but a strong counterattack by the state's Federation of Chambers of Commerce turned back the attempt.

In Colorado, the state AFL-CIO staged a rally at the Capitol to urge Gov. Roy Romer to veto a bill designed to curb sharply rising costs of the state's workers' compensation system. Romer signed the bill. "[Unions are] very active in this state, more so than they used to be," says

Republican state Sen. William Owens, who has been in the Colorado legislature for nine years. He cites union sponsorship of a bill to reduce from 75 percent to 50 percent the number of employees in a



PHOTO: LINDA BUE SCOTT

Insulation-firm executive Patrick Leiser, left, is suing unions over their tactics. With him are Michael and Terry Leiser and San Francisco attorney Mark Thierman.

firm needed to call for a union certification election.

Expansion of state prevailing-wage laws has been another priority of organized labor during this year's state legislative sessions in more than a half dozen states.

California's Contra Costa County, under pressure from organized labor, adopted an ordinance requiring payment of union-negotiated wage levels and benefits to all workers on private construction projects valued at \$500,000 or more. The National Chamber Litigation Center, an affiliate of the U.S. Chamber of Commerce, launched a court attack against the ordinance, noting that it forced employers to pay workers more than \$30 an hour in wages and benefits. "The business community feels that such government interference should be nipped in the bud," the Chamber's general counsel, Stephen A. Bokart, said in announcing the federal court challenge on behalf of business. The Chamber argued that federal labor and pension laws had pre-empted the county's authority to set wage and benefit levels.

A U.S. District Court upheld the Chamber's position in a decision in June, but the county is expected to appeal, and the battle will continue.

A businessman affected by the ordinance says it has a larger goal than higher pay for construction workers. "The unions are not shooting for wage increases," says Briggs Wood, president of Timec of Vallejo, Calif., which does maintenance work on oil refineries and is competing against union contractors. "What they're shooting for is getting the work back for the building-trades unions. It's a struggle for survival for the unions." Wood filed an affidavit in support of the Chamber's injunction against the Contra Costa

County wage ordinance.

Payment of prevailing wages—usually the union wages in an area—on state-funded projects costing more than a certain amount has been a long-held goal of labor. That campaign is extending through labor's efforts to lower the threshold at which the wage must be paid and include private-sector projects, as in Contra Costa County.

Many labor-policy experts say unions use such laws to win members and jobs on the theory that laws forcing businesses to pay union scales eliminate economic incentives for seeking lower-cost, nonunion help. Says Ralph Thomas, executive director of the National Association of Minority Contractors, in Washington, D.C.: "No contractor is going to pay journeyman wages to someone who's just learning or new to the field when he can get somebody much more experienced" for the wage rates required by law.

Although union workers may not be "more experienced" than nonunion workers, developers often are reluctant to hire contractors whose workers would ordinarily receive \$10 an hour when the prevailing wage would require they be paid \$20 an hour. That hurts minority contractors and workers who cannot offer savings on labor costs as an inducement to win contracts, says Thomas.

It also appears to be no coincidence that unions are lobbying to extend prevailing-wage laws to the private sector at the same time that financially strapped state and local governments are giving increasing consideration to contracting out—that is, the use of private businesses to provide services that traditionally have been the province of government.

Experience has shown that privatization, as the process is known, can save money, but prevailing-wage laws negate the benefits of contracting out.

Another reason labor has turned more of its attention toward the states is the growing public-sector work force. According to the Advisory Commission on Intergovernmental Relations, the number of state public employees grew by more than 500,000 in the 1980s. As labor unions find themselves less successful in winning recruits in the private sector, they are managing to offset those losses somewhat by gaining members who work for governments.

The growth in the ranks of organized government workers has prevented labor's relative strength from declining even more precipitously than it has. According to the Labor Department's Bureau of Labor Statistics, private-sector unions lost nearly 7 million members from

1977 to 1990; there were only 10.3 million private-sector union members in the U.S. in 1990. With public-sector employees included, total union membership currently stands at nearly 17 million. In 1978, there were fewer than 6 million public-sector union members, compared with 20 million in the private sector.

The political power of the public-sector unions has grown along with their ranks. The National Education Association; the American Federation of Teachers; the American Federation of State, County and Municipal Employees; the Communications Workers of America; and the Service Employees International unions—all of which represent mostly public-sector employees whose salaries are paid with tax dollars—are adamantly opposed to the surge of proposals to cut services—and jobs—as an alternative to tax increases.

These unions have become major opponents of state and local tax relief and major supporters of virtually any tax-increase proposal, says Moore of the Cato Institute. He adds, "They have become the champions of big government on the state level."

There are other factors in the decline of union power and presence in the national capital. "Unions don't need to work at the

federal level because, frankly, it's more expensive to work at the federal level, and they're winning a lot of these battles at the state level," says Mark Mix, vice president for state legislation at the



PHOTO: J. MICHAEL KEER

Ralph C. Thomas of the National Association of Minority Contractors: No journeyman wages for newcomers.

National Right to Work Committee. "Labor knows that it's a lot more inexpensive and it's a lot more effective to target their message at the state level."

In addition to the shift of governmental activity from the federal to the local level over the past decade, a significant part of

labor's growing inability to achieve its goals at the national level rests on political developments of recent years. The powers of the presidency have been in Republican hands 18½ of the past 22½ years, and the use or threat of the veto has had a profound influence on the course of legislation, the Democratic-controlled Congress notwithstanding.

Indeed, the presence of a Democratic national legislature is no longer the guarantee of labor victories that it once was. The population shift away from the historic union bastions in the Northeast to the more conservative South and Southwest has produced a new breed of Democratic lawmakers who see an alliance with organized labor as a danger, not a plus.

Against that changing political climate in Washington, Herbert E. Alexander, a political science professor at the University of Southern California and director of its Citizens' Research Foundation, which studies the role of money in politics, sees a very pragmatic reason for the increasing state emphasis of organized labor's initiatives: "There are more Democratic-controlled [state] legislatures than there are Republican, and, to the extent that labor and Democrats go hand-in-hand, [unions] have opportunities at the state level that they might not have at the federal level."

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FINANCE

New Round In The Tax-Increase Battle

By Joan C. Szabo

As Congress considers ways to revitalize the economy, the Democratic leadership is putting forth a set of proposals calling for more federal spending and higher federal taxes.

Critics counter that such steps are a guaranteed way to exacerbate recessionary trends and slow the recovery.

Specifically, the Democrats seek economic stimulation via such government

pay for a reduction in taxes for lower-income individuals through such steps as an increase in the earned-income tax credit and creation of a refundable child tax credit.

The bill would raise the top tax rate from 31 percent to 35 percent on married taxpayers with adjusted gross incomes of more than \$110,000 and allow a higher exemption for dependents of lower-income taxpayers.

The tax hikes expected to be proposed by congressional Democrats would slow economic growth.

Says Rahn: "The impact of one tax increase which reduces growth by one-tenth of 1 percent when added to other tax changes, new regulations, and spending programs is significant. The cumulative burden results in economic stagnation and recession."

"A tax cut is far superior than spending and taxing" to improve economic health, says Thomas P. Brock, president of the accounting firm of Brock, Buchholz & Stow, in Longmont, Colo., and an authority on tax policy. Brock cites the Democratic call for higher unemployment insurance taxes to increase benefits as an example of misplaced priorities.

Tax relief, he says, "puts the money in the hands of the people who are going to do something with it, as opposed to raising the unemployment tax to provide higher benefits to workers who are not working. That does not in the long run do much for the economy. If you provide money for businesses to create jobs, you both solve the unemployment problem and create long-term economic growth."

At least part of the Democrats' economic plan is geared to the claim that excessive tax relief was voted in the 1980s, leaving the federal government with insufficient funds to meet its responsibilities.

Opponents counter that the federal burden on U.S. taxpayers was essentially unchanged over the past decade as so-called tax relief was offset by a series of tax increases. (See the accompanying chart.)

There were seven consecutive tax increases during the past decade, beginning with the Tax Equity and Fiscal Responsibility Act of 1982. Taxes were raised again in 1984, 1986, 1987, 1988, 1989, and 1990.

The most recent increase, the Omnibus Budget Reconciliation Act of 1990, raised taxes a net \$167 billion over five years and represented the largest hike in U.S. history. According to the U.S. Chamber, the result of the six laws enacted in the 1980s has been a 10-percentage-point increase in effective corporate federal tax rates over the period.

In addition, one study finds that the overall tax burden increased from 54.8 percent of corporate profits in 1979 to a historically high 89 percent of corporate profits by 1989. This includes federal,

Combined Individual And Corporate Federal Tax Burden As A Percentage Of GNP

1982	19.7%
1983	18.1
1984	18.1
1985	18.6
1986	18.4
1987	19.3
1988	19.0
1989	19.3
1990	19.1

Source: Budget Of The United States Government, Fiscal Year 1992, as submitted by the Office of Management and Budget

PHOTO: NERIE HIGGINS

A decade of excessive tax relief? Not according to the numbers. The federal burden on U.S. taxpayers was essentially unchanged through the 1980s.

actions as higher unemployment benefits and expansion of government-financed construction and social programs. They are also proposing a cut in the tax rate for lower- and middle-income taxpayers.

When it comes to financing increased government spending and providing tax relief within existing budget restraints, the Democrats seize on the so-called fairness issue (see the editorial on Page 63). They are claiming that upper-income taxpayers and businesses do not pay their fair share of taxes and should be the target of any new tax hikes.

Sen. Albert Gore Jr., D-Tenn., and Rep. Thomas J. Downey, D-N.Y., have introduced a bill to raise taxes on higher-income taxpayers as a way to help

In addition, an 11 percent surtax would apply to individuals with an adjusted gross income of more than \$250,000.

While Democratic leaders in Congress are discussing tax action along those general lines without a specific plan as yet, business expects that these economic proposals will be based on a "fairness" approach, meaning higher taxes on the upper brackets.

Business economists point out that higher taxes would have an especially detrimental effect on the economy, further dampening prospects of economic recovery.

These economists include Richard W. Rahn, vice president and chief economist of the U.S. Chamber of Commerce.



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FINANCE

state, and local income taxes and payroll taxes paid by corporations. The increase occurred while corporate profits experienced only a 19 percent increase over the same period.

Tax increases on individuals have added to the burden of business owners. The 1990 tax law alone has:

- Increased the nominal top tax rate from 28 percent to 31 percent while imposing deduction limits that produce an effective rate as high as 34 percent. The limits apply to \$100,000 or more of adjusted gross income. Deductions are reduced by 3 percent of the amount that income exceeds \$100,000.

- Reduced personal exemptions beginning at \$100,000 of adjusted gross income for single taxpayers and \$150,000 for those filing jointly. This effectively raises the marginal tax rate to as high as 33 percent.

- Increased from \$51,300 to \$125,000 the amount of wages subject to the 1.45 percent Medicare payroll tax. (That action follows broad Social Security tax increases adopted in 1983 to save the system from insolvency. The 1983 legislation increased the combined employer-employee tax rate from 13.4 percent to 15.02 percent over five years, levied that rate on the self-employed, and made Social Security benefits subject to

income taxes for the first time in the history of the system. The tax is due if gross income combined with half of the retirement benefits exceeds \$25,000 for single persons and \$32,000 for married couples filing jointly.)

- Raised the tax on gasoline and diesel fuel by 5 cents a gallon, bringing the current totals to 14 cents and 20 cents per gallon, respectively.

- Doubled the tax on beer to 32 cents per six-pack; raised the tax on table wine sevenfold, to 21 cents per bottle; and increased the tax on a fifth of liquor by 16 cents.

Altogether, the 1990 bill raised taxes by \$194 billion over the next five years, offsetting that amount by \$27 billion in reductions. About half of the latter amount was committed to an increase in the earned-income tax credit for low-income workers. Another \$6 billion results from the extension of various tax credits, exemptions, and deductions that had been due to expire.

Business viewed the heavy 1986 tax increases as a factor in bringing about the economic downturn that cut off the recovery that had begun in 1982. While the 1986 law reduced the corporate tax rate, it increased other business taxes

\$120 billion over five years to grant an equal amount in relief to some individuals.

U.S. Chamber economist Rahn gives this background: "The 1986 Act raised the top tax rate on capital gains to 33 percent for individuals and made it difficult to deduct legitimate business expenses by limiting losses on 'passive' investments, curtailing depreciation schedules on commercial real estate, and repealing the 10-year amortization of construction-period costs and taxes.

"By limiting proper deductions on capital investment, the act raised taxes on capital-intensive industries—the backbone of the U.S. export business. Coupled with onerous taxes on foreign activities of U.S. companies, the act reduced U.S. competitiveness. It also completely eliminated the investment tax credit for all businesses, thereby reducing business investment," he says.

Perhaps one of the most harmful effects of the 1986 act was the expansion of the corporate alternative minimum tax (AMT). The AMT is a separate tax computation required in addition to the regular income-tax calculation. Corporations pay the higher of the two calculations.

The expanded AMT is handicapping U.S. business and providing a competitive edge to our foreign competitors, according to two studies recently released by the American Council for Capital Formation's Center for Policy Research, in Washington, D.C.

The 1986 tax law also eliminated the tax deduction for interest on consumer debt, reduced to 80 percent the deduction for business meals and entertainment, set additional limits on Individual Retirement Accounts (IRAs), and eliminated the deduction for state sales taxes.

Opponents of another round of tax increases cite those and other tax boosts to counter claims that excessive tax relief hampers the government's ability to expand social programs.

In opposition to calls for higher taxes and spending, a number of business groups back an economic-growth plan.

The key proposal in this area is the U.S. Chamber's Economic Growth and Jobs Creation Act. It would reduce capital gains and payroll tax rates, protect tax depreciation write-offs against inflation, and encourage greater savings.

There is currently no timetable for debate on the opposing tax-policy proposals now pending in Congress.

But as Democrats continue to press the "fairness" issue and advance proposals for middle-class tax relief at the expense of upper-income taxpayers, the issue appears to be emerging as a harbinger of the 1992 presidential and congressional election campaigns. ■

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HEALTH

Rules On Medical Tests For New Hires

By David Warner

Like many employers whose workers perform heavy, physical labor, Ralph Deger routinely orders pre-employment health screening for job applicants. He wants to make sure that candidates are up to the job at his Milwaukee metal-fabrication shop. "I'm looking for a person who's pretty robust and used to physical labor," says Deger, whose 26-employee Bushman Equipment Co. manufactures heavy lifting equipment.

While Bushman Equipment's job requirements aren't likely to change anytime soon, Deger's ability to require medical screenings will. Beginning next July, the Americans with Disabilities Act will greatly limit the types of pre-employment medical inquiries and exams that employers may use. The law also will affect an employer's ability to conduct medical exams of current employees, although it will not prevent an employer from banning workplace use of alcohol or the illegal use of drugs.

At present, companies typically ask job applicants questions about their health, and many firms require pre-employment medical exams, primarily to avoid on-the-job injuries leading to workers' compensation claims.

Under the disabilities law, which was enacted last year and takes effect in stages over several years, companies will no longer be permitted to screen out a prospective employee because the applicant has an elevated risk of on-the-job injury or a medical condition that could be aggravated because of job demands.

For example, Deger agreed to hire one job applicant only after the man agreed to have a hernia surgically repaired. Deger was concerned that without the surgery, the heavy labor would cause the man major injury, which could cost Deger's company through workers' compensation or health-care expenses. The disabilities law would prevent this type of action if the hernia did not im-

pair the applicant's ability to do the particular job.

The law specifically bans questions about a job applicant's physical or mental condition either on an employment application form or during a job interview. Prohibited also are even generic questions such as, "Do you have any physical or mental conditions that would prevent you from performing your job functions?"



PHOTO: GUY LAWRENCE

Medical screenings of applicants and employees will be restricted for manufacturer Ralph Deger and most other employers.

Employers may inquire only about an applicant's ability to perform specific job-related functions. For example, a firm hiring someone for word-processing duties could ask whether an applicant can use a computer but not whether the applicant has a visual impairment. A construction company could ask whether an applicant can lift 50-pound boxes eight hours a day, not whether the individual has a heart problem.

Medical exams still are allowed, but under greatly restricted circumstances. Exams prior to a job offer are prohibited, but an offer may be conditioned upon the satisfactory results of a medical exam. The results may not be used to withdraw the offer unless they show that the individual is not able to perform

The new disabilities law will ban most pre-employment health screening. Here are guidelines for your hiring practices.

the tasks required by the position sought. Information from the exams must be segregated from general personnel files and kept confidential.

The law's definition of disabled includes people with AIDS, those who test positive for the AIDS virus, and rehabilitated drug abusers and alcoholics.

The disabilities law includes special provisions for denying employment in food-handling jobs to those who have an

infectious or communicable disease. The act directs the U.S. Department of Health and Human Services to determine which diseases may be communicated through food handling and to update the list of such diseases annually.

The law's restrictions on medical inquiries probably will eliminate 85 percent of the pre-employment health screenings now conducted, says David Copus, a Washington, D.C., lawyer who specializes in disabilities law. "Most screenings are done to determine whether or not the person's employment in the specific job in question would pose an elevated risk of on-the-job injury and, hence, a workers' comp risk," he says. Under the disabilities law, "you can't

exclude somebody because they have an increased risk of getting injured. That's not a lawful employment practice."

Preventing employers from considering increased risks of injury could lead to higher workers' compensation costs, adds Copus. "If you have a significant increase in workers' comp injuries, you've got to pay for that. You're probably going to pay for it in [workers' comp] premiums and lost productivity, and you'll probably pay for it in terms of accommodating the employee when he comes back. It's sort of a triple threat."

But Richard Douglas, executive director of the President's Committee on Employment of People with Disabilities, says, "I don't think these fears will be justified." He cites various studies con-

Questions And Answers On The Disabilities Law

The Americans with Disabilities Act will change the way businesses make employment decisions. The Equal Employment Opportunity Commission issued regulations in July on the employment aspects of the law, but questions about hiring, firing, and promoting workers protected by the statute are still likely to arise.

Following are typical questions that employers are asking about the disabilities law. The answers have been supplied by Robert Duston, an attorney with the Washington law firm of Schmeltzer, Aptaker & Shepard.

Employers who have specific questions on the law should consult with their attorneys.

Do I have to engage in affirmative action?

No. The disabilities law does not require employers to engage in affirmative action in recruitment or to give preferences in hiring to people with disabilities. Instead, the law requires employers to use nondiscriminatory criteria in recruitment, hiring, promotion, and discharge; to refrain from discrimination in other terms and conditions of employment; and to provide reasonable accommodation of disabilities. Certain federal contractors and other employers may have affirmative-action obligations under other laws.

Can I set minimum qualifications for applicants?

An employer may set minimum qualifications for applicants where (1) the qualifications have a legitimate relationship to the job in question, and (2) the qualifications relate to essential functions of the job, as compared with non-essential functions. Where a disabled applicant cannot satisfy the minimum qualifications legitimately related to the essential job functions, the employer can refuse to hire the applicant. Job descriptions and past history of how the job was performed will serve as evidence—although not conclusive evidence—of the essential functions of a job. This makes it important to have well-written job descriptions in place before the disabilities law takes effect.

Can I continue to use my employment questionnaire or a job application that contains inquiries regarding past disabilities or handicaps?

An employment questionnaire inquiring into an applicant's past disabilities is

probably prohibited under the disabilities law unless the questionnaire is part of a medical examination made after a conditional offer of employment. Otherwise, the inquiries must relate directly to the applicant's ability to perform the essential functions of the job. It is more appropriate to inquire whether the applicant is aware of anything that will prevent or hinder his or her ability to perform specific job functions.

Do I have to transfer a newly disabled employee to a light-duty position?

An employer is not required to create a new position for a disabled employee who is unable to perform his or her job. An employer may be required to transfer an employee to another position if: (1) a position is available, (2) the transfer would not create an undue hardship on the employer, and (3) the employee is qualified for the position. If light duty is provided on a temporary basis for workers injured on the job, this alternative cannot be denied employees who have disabilities and suffer on-the-job injuries that make them temporarily unable to perform their current jobs.

Where an employee is performing temporary light-duty work as an alternative to workers' compensation and is unable to perform in his or her regular full-time position, do I have to permanently retain the employee in the light-duty position?

While there is no clear answer under the disabilities law, interpretations of prior statutes have found no obligation to transfer a disabled employee permanently to a light-duty position. A light-duty position is usually a temporary position designed for a temporary physical condition caused by a workplace accident, and thus it is not a position to which the employee gains an entitlement to a permanent job.

Where I am considering two equally qualified applicants, one of whom is disabled, can I hire the nondisabled applicant?

Yes, provided you do not use a discriminatory reason. Rarely will two applicants be equally qualified in every respect; there are usually distinguishing factors. Examples of nondiscriminatory criteria used to distinguish applicants may be superior education or past job experience that will prove necessary or helpful for the job.

HEALTH

cluding that workers with disabilities do not burden their employers with extra costs.

Studies by the Du Pont Co. over the past 30 years, for example, show that people with disabilities are no more likely to be injured on the job than their nondisabled counterparts.

In addition to eliminating most pre-employment health screening, the disabilities law may also prevent employers from collecting information on job applicants' previous work-related injuries. Employers now use such checks to verify application information, reduce claims fraud, and avoid negligent-hiring litigation, which can result when an employee injures a co-worker or a patron of the business.

Claims histories also are used to tap state second-injury funds, which are used to pay workers' compensation claims for employees whose injuries have aggravated previous injuries or have compounded existing disabilities. When an employee's worker's comp claim is eligible for reimbursement from a second-injury fund, the claim poses no risk of causing an increase in the employer's costs for workers' comp coverage. Nearly half the states require that employers have prior knowledge of previous injuries, and several states require documentation of previous injuries before the second-injury fund can be used.

If the disabilities law's regulations, which are expected to be issued this summer, bar employers from collecting claims-history information on job applicants, employers stand to lose millions of dollars in state second-injury funds, according to Dean A. Suposs, president of AVERT Inc., a Fort Collins, Colo., company that verifies information on employment applications.

As it does with a job applicant, the disabilities law permits inquiries into the nature or severity of a current employee's disability only when such inquiries are "job-related" and consistent with "business necessity." Likewise, employers may not require workers to have a medical exam to learn more about a disability unless the exam is job-related and justified by business necessity. In short, medical exams for current employees may be ordered only when actual job performance is impaired.

Thus, if an employee starts to lose hair, the employer may not ask whether the worker is being treated for cancer since cancer does not necessarily impede the ability to perform most jobs. But a supervisor who keeps passing out and disrupting work may be required to have a medical exam to determine the nature of the problem. Also permissible

are medical exams required by government standards, such as those established by the Occupational Safety and Health Administration.

The law does not prevent voluntary exams, such as employer-sponsored cholesterol or blood-pressure checks.

Although it restricts the use of other types of medical exams, the disabilities law does not prevent testing of applicants or employees for illegal drug use. In addition, employers who receive federal funds may require worker compliance with provisions of the Drug Free Work Place Act of 1988, which, among other things, bans the unlawful possession, distribution, or use of a controlled substance in the workplace.

Employers may also require that employees not use or be under the influence of alcohol at work, or abuse prescription or over-the-counter drugs. Nor does the disabilities law preclude any of the special drug and alcohol testing established by federal agencies.

The disabilities law's restrictions on collection of applicant and employee medical information could affect an employer's health insurance plan. The law prohibits discrimination against protected individuals in the area of employee benefits, including health insurance.

Disabled workers may not be "denied insurance or be subject to different terms or conditions of insurance based on disability alone." Insurers and self-insured companies may continue to identify and classify risks, and they may limit certain types of coverage as long as there is no intent to discriminate.

For example, it would be unlawful for an employer to deny health insurance to a person with diabetes if such insurance was available to other employees without diabetes. Limits on particular services or procedures are permissible, as long as they apply equally to all employees. It would be lawful, for instance, to impose an across-the-board limit on the number of annual blood transfusions paid by the health plan, even if the limit affected an employee with hemophilia.

The law does not affect insurance policies' clauses regarding pre-existing conditions; such clauses typically limit or exclude coverage for conditions arising prior to employment.

The disabilities law's restrictions on medical inquiries and exams constitute only a fraction of the law's Title I requirements designed to remove barriers to the employment of people with disabilities. In general, Title I obligates employers to avoid discrimination against qualified individuals with disabilities and to "reasonably accommodate" the disabilities of employees and job applicants.

The provisions of Title I take effect July 26, 1992, for companies with 25 or



PHOTO: T. MICHAEL KEZA

You can't exclude applicants on grounds they are more likely to be injured, says lawyer David Copus.

more workers and July 26, 1994, for those with 15 to 24 employees. The law also applies to state and local governments, but Congress exempted itself and federal agencies.

Additional titles of the law bar discrimination against the disabled in public accommodations, public services, transportation, and communications. (See "Achieving Access For The Disabled," in the June 1991 issue of *Nation's Business*.)

Many legal experts regard the Americans with Disabilities Act as the most sweeping civil-rights legislation passed by Congress in more than 25 years. It covers an estimated 43 million Americans with disabilities. Given the broad impact of the law, experts advise that covered companies begin now to review all employment-related documents, such as job descriptions and applications, to ensure their compliance.

While much remains to be clarified about the law, there should be no doubt about its potential impact. Two-thirds of all working-age disabled Americans are unemployed; most say they want to work.



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MANAGING

Help Newcomers Learn The Ropes

By Roberta Maynard

If the job of training a first-time manager has ever fallen to you and you were tempted to say "sink or swim," you are not alone. Many senior managers who learned the hard way think newcomers should do the same. Others see the training process as tedious and too time-consuming. Many just don't know how to do it.

But the benefits of a training program far outweigh any inconvenience it may cause. For the newcomer, a training program provides a smooth transition, the tools needed to do the job, and a means to find the way around without the frustration that often accompanies a new job. For the company, a uniform approach to training translates into shared goals among its managers. Moreover, trained employees become good managers, which buoys employees' morale and reduces turnover.

There is no training method that is the one and only right way to do it, but most successful trainers agree that training should be focused on teaching what the job is, not on how to do it.

The place to start is with the objectives of the position, says Bob Burden, executive vice president of Alexander and Alexander Benefits Services, Inc., a Chicago-based consulting firm. "Is it to make 30 percent profit on the bottom line? Is it to make 50 burgers in 50 minutes? Define it. From there, go to the specifics of the operation. Communicate what needs to be done to achieve those objectives."

Provide standards and goals. Help newcomers understand their roles and what everyone expects—other managers, customers, and employees.

You might arrange for new managers—particularly those hired from the outside—to spend some time in every type of job they will supervise.

Or have the trainees trade places for a week with other managers with whom they will regularly interact. This exercise helps give newcomers a picture of the whole operation.

Training must take a back seat to schedules and business demands, to some extent, so care must be taken to keep it from falling through the cracks. For that reason, and to ensure consistency and

thoroughness, you need a plan.

"As a manager, you have to have a semiformal plan to take new managers from point A to point B," says Burden. "I feel that operations skills are paramount, so I recommend focusing on those. Without them, [managers] can't do the job. You can address particular areas of weakness, such as speaking in public, with specific courses later on."

The plan should identify the areas to cover, and it's a good idea to make new managers part of the process. One ap-

proach is to ask newcomers what is most important and then spend a defined period of time working on that area. Schedule a meeting with each newcomer for one week later to discuss it. Another method is to get new managers to think about the kind of manager they want to be and the kind of experiences they want to have. Then, work backward to a plan designed to meet those goals.

With either approach, you are making the managers responsible for their own training.



PHOTO: JOHN DICH

"Communicate what needs to be done," says Bob Burden, center, executive vice president of Alexander and Alexander Benefits Services, meeting with executives John Elder and Jim Sokol.

proach is to ask newcomers what is most important and then spend a defined period of time working on that area. Schedule a meeting with each newcomer for one week later to discuss it. Another method is to get new managers to think about the kind of manager they want to be and the kind of experiences they want to have. Then, work backward to a plan designed to meet those goals.

With either approach, you are making the managers responsible for their own training.

The training should cover the legal aspects of managing, including hiring, firing, and interviewing.

Regularly question the new manager

on what is being learned, not only about the specifics of the job but also about the company's structure and philosophy. To help reinforce what has been learned and to determine how the training is going, you could ask questions such as "What have you learned in the past week about your customers?" and "Tell me about the function of the marketing department." After a period of regular supervision, there should be a weaning process, says Phil Barry, president of Compro Insurance Services, Inc., based in San Jose, Calif. Barry employs 60 people, 10 of whom are managers, and has been training managers for more than 24 years. "You may want to jointly do a lot of duties, such as performance evaluations," he says. "Have the new manager write out the evaluation and explain it. Initially, the senior and junior managers together conduct the interview. In the next phase, they review the process with you, but they alone conduct the interview. And, finally, they manage the entire process, with you available if needed. You can use the same technique for hiring or completing department budgets."

Barry also finds it helpful to let new managers sit in occasionally on meetings

Roberta Maynard covers business management as associate editor of *Automotive Executive* magazine.

Senior managers can help energize their companies by sharing their expertise with new managers.

one level higher to gain a larger perspective on the business. "It's a way of inspiring," he says. "It says that we communicate and that we are not secretive."

To maintain communication, the new manager and trainer should meet for an hour once or twice a month. These should be informal sessions to see how the manager is doing. To emphasize the importance of this training to the operation, the owner might sit in on every fourth meeting.

Interruptions in the workplace impede discussion, so it can be helpful to get out of the shop for training meetings. "To even find time to talk about our work is an enormous commitment for small companies," says Ronald E. Galbraith, whose management company, Management 21, in Nashville, Tenn., has 37 employees. "We often think it is not a productive use of time to take people out of the office, but that's exactly the way we learn to be more productive."

Galbraith adds: "Even though I know this myself, I still must make an effort to close my office for a half-day retreat." But the effort is worth it, he adds. The training sessions he schedules allow him and his employees time to be creative and reflect on work-related problems.

Because small businesses rely heavily, if not solely, on the informal, mentor approach to preparing new managers, the senior managers must be evaluated and chosen with care.

Says Bob Burden: "I think a management trainer has to have a quality of openness—the ability to communicate both the positives and the negatives about the job and to be open enough to take suggestions about how to improve the operation. Also, there has to be a high level of integrity. The senior manager has to be completely honest with himself as to the information being imparted and not operate out of fear that the trainee will do a better job."

"Finally, the senior manager needs to give the new person the flexibility to achieve the end result the way they want to do it. Some managers have difficulty acknowledging that there are different management styles and different solutions."

Frequently, senior managers who have been successful using their own methods are biased in favor of them. They tend to

tell trainees the answers rather than help them figure out the answers for themselves. And some senior managers are reluctant to give authority and freedom to the new manager.

"In their roles as mentors and trainers, managers must be careful not to create dependency rather than independence," says Galbraith. "You're not trying to clone someone with mentoring. The process should be collaborative."

One way to foster that result is to present an objective, such as "reduce

"All managers should be responsible for making sure that things can be done without them. They should be committed to some extent to documenting the technical parts of the job—not a list of duties, but the responsibilities and activities necessary to achieve them. When managers view their responsibilities collectively, that's when a company grows. And the subordinate is seeing growth instead of working for someone with a personal security problem."

The philosophy of sharing informa-



PHOTO: LINDA BUE SCOTT

Don't let managers become isolated from one another, says Phil Barry, third from left, president of Compro Insurance Services. With him are Thomas Stone, Terry A. Harris, and Debra Harman-Elam.

turnover by 50 percent during the coming year." Get the new manager to think about how to achieve that goal, and work with the manager to achieve it.

Some managers guard their turf. They "feel their ultimate job security is that no one else can do what they do. This is a commonly held belief, but it is a myth," says Larry Malone, senior associate in the human resources management division of CSRI, a management consulting firm in Santa Clara, Calif. "Managers who believe this need to examine their attitudes," he says. "In order to develop a competent new manager and to free themselves up for their own personal growth, they need to reprogram.

tion—or not sharing it—starts at the top, as part of the mission or strategy of the company. It is the owner's responsibility, says Malone, to have this heartfelt goal and convey it to the managers.

"You want to be sure you're conveying, as a company, that you want all your managers and supervisors to be successful," he says, "and that the company will deliver all resources possible to that new manager."

Whether training one's own successor or a first-time manager, the senior manager's challenge is to be honest as well as dedicated to the growth of someone who, properly trained, may bring to the company energy, enthusiasm, and creativity.

A Primer For New Managers

Phil Barry is president and CEO of Compro Insurance Services, Inc., an insurance brokerage/life services company based in San Jose, Calif. The company has revenues of \$61 million a year and employs 60 people, of whom 10 are managers.

Barry has been training managers for more than 24 years, and he says good managers adopt the following practices:

Listen. As a manager, you can't be ego-driven. Listening is critical when you are making important decisions and resolving disputes. Make sure you hear what is being said. Take notes, and don't disagree.

Be objective. A manager must be constantly vigilant to avoid playing favorites. You have to identify with performance, not personality.

Seek several opinions. When evaluating a subordinate, for example, talk with the people who work with that person. You'll see a true picture of strengths and weaknesses that will enable you to com-

municate and evaluate more effectively.

Be the model. You can't lead from the back of the pack. Set the example in professionalism, work ethic, integrity, tone, and morals. If you take two-hour

Let new managers sit in occasionally on meetings one level higher to gain a larger perspective on the business.

—Business executive Phil Barry

lunches, never leave later than 5, and treat people harshly, your employees will do likewise.

Delegate. Be willing to risk. You must let people fail if they're going to grow. If you criticize them for failing, how readily

will they take another chance?

Audit performance. The counterpart to delegation is follow-up. When you give an assignment, monitor the progress. Instead of saying only that it is due in 30 days, say, "Let's review it next week."

Develop your people. Managers must know their people and have a plan for their development. You have to have those uncomfortable conversations with them to address the two questions, "How am I doing?" and "Where am I going in the company?"

Like people. Management is about people. If you don't like people, don't manage. Don't do it for a bigger office or to make more money because your motives will soon become apparent, and you will fail. Management takes a lot of effort.

Recognize your limits. Most new managers are afraid to admit mistakes. You don't have to have all the answers. Capitalize on your strengths. If you err, err on the side of being human. You can be approachable and still be the boss. **MB**

To order reprints of this article, see Page 61.



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Benefits Update

Clamping lids on medical reimbursements; helping workers save for retirement; allowing "bare-bones" health plans.

By Roger Thompson

WORKERS' COMPENSATION

States Adopt Fee Schedules

Medical expenses now represent more than 40 percent of the total cost of workers' compensation claims nationwide, up from 30 percent only a decade ago, and the figure continues to rise. In some states, medical expenses already account for more than half of all claims costs, says the National Council on Compensation Insurance, in New York.

To combat rising medical costs, 26 states have implemented fee schedules that set maximum reimbursements for medical services, and four states are developing such schedules, according to a recent study by the Workers Compensation Research Institute, in Cambridge, Mass.

Advocates of such fee schedules main-

Differences In Workers' Compensation Medical Reimbursements

Procedure	Median All States	Range Of Fees
Surgical treatment of carpal tunnel syndrome	\$694	\$400-\$1,028
Repair of herniated disk in lower back	2,250	1,040-3,400
Knee arthroscopy with removal of cartilage	1,464	979-2,147
Common hernia repair	795	576-1,152
Chest X-ray, one view	32	21-48
Lower-back CAT scan	480	239-776
Office visit, new patient, initial comprehensive exam	107	50-150
Office visit, established patient, brief exam	23	15-31
Office visit, established patient, intermediate exam	40	25-63
Emergency room, initial visit	75	36-130

Source: Workers Compensation Research Institute

tain that unregulated medical reimbursements are inherently inflationary and that fee schedules help reduce disputes over excessive charges.

The study found wide variations among the states in allowable charges for common medical procedures (see the

accompanying chart), but it did not determine the reasons for such variations. They "may point to fundamental problems with the way some fee schedules are formulated, or [the variations] may reflect differences in usual fees among the states," according to the study. ■

PENSION PLANS

Proposals To Help Employees Save

Both the Bush administration and members of Congress have put forth proposals designed to cut the high costs and the administrative headaches that can discourage small companies from setting up pension plans.

The reform proposals focus on employee savings as the primary source of pension income. In the past, employee savings plans were regarded as supplemental. Traditionally, pensions have been financed entirely by the employer. But complexities and high administrative costs have prevented most small companies from setting up any type of pension plan.

Forty-two million workers—45 percent of the work force—have no pension coverage, says the Labor Department. Most of them are employed by companies with fewer than 100 workers. Among firms of this size, only 24 percent now offer pensions.

In fact, even companies that do have pension plans are canceling them in record numbers. The total number of pension plans in the U.S. actually shrank

last year for the first time.

Reformers aim to make pensions attractive to small companies by stripping away most of the administrative burdens. The two leading proposals would raise the ceiling on the size of companies eligible for simplified plans to 100 employees from the current limit of 25.

The administration's proposal, unveiled in late April, is called POWER, short for Pension Opportunities for Workers' Expanded Retirement. It would:

- Allow a new type of small-business retirement savings plan for companies without a pension plan. The new plan would require employers to set aside 2 percent of pay (up to \$2,000) for all eligible employees in exchange for virtually no government regulation of their pension plan. Employees also would be able to contribute up to \$4,200 annually in untaxed earnings. In addition, employers could match up to half of the employee's contribution. Thus, the maximum annual contribution would be \$8,300.

- Simplify tax-free rollover procedures that allow employees who change jobs to put their pension or savings plan funds into an Individual Retirement Account (IRA).

"Our goal with POWER is to bring millions of workers into the pension system and make it easier to save for their

retirement," says Secretary of Labor Lynn Martin.

Sen. Bob Packwood, R-Ore., is the architect of the second major proposal, called PRIME, or Private Retirement Incentive Matched by Employers. Unlike the administration's plan, employers would not be required to make a contribution on behalf of all employees—only those who chose to save some of their own money.

Workers could set aside up to 3 percent of their yearly salary before taxes, for a maximum of \$3,000, and the employer would match that dollar for dollar, bringing the total maximum contribution to \$6,000.

Like the administration's proposal, PRIME would greatly reduce administrative paperwork, and it would be available only to companies without any other type of pension plan.

A proposal similar to PRIME has been introduced in the House by Rep. John LaFalce, D-N.Y., chairman of the Small Business Committee.

Momentum is building for passage of pension reforms for small companies, but it is not clear what sort of legislation will emerge, or when it will be passed. The final measure most likely will represent a compromise incorporating elements of both POWER and PRIME. ■

HEALTH INSURANCE

"Bare-Bones" Plans Can Reduce Costs

While Congress merely talks about health-care reform, states are doing something about it. Since early 1990, 16 states have adopted legislation allowing insurers to sell lower-cost, "bare-bones" health insurance to small companies. Eight acted last year, eight more acted through this past May, and several more are expected to adopt similar legislation before the end of the year.

The policies are called bare-bones because they waive most, if not all, of the specific, state-required benefit and medical-provider mandates that have been enacted over the years. For example, some states require coverage of acupuncture, others reimburse specialists in herbal medicine. Since these mandates drive up the cost of insurance, stripping them away allows insurers to offer lower-cost health plans.

Small companies—usually defined for these plans as firms with no more than 25 employees—are the targets of the bare-bones policies because they have the most difficulty finding affordable health insurance.

A recent report by the George Washington University Intergovernmental Health Policy Project, in Washington, D.C., calls bare-bones laws "the latest—and perhaps most promising—prospect for closing the country's [health] insurance gap."

Although bare-bones health-insurance policies usually cost 20 to 40 percent less than standard health coverage, the exclu-

sion of state mandates may have been overstated as a factor in the lower costs, according to the health-policy project report. For example, Washington state's yearlong experience with a bare-bones health plan showed that most of the savings resulted from a reduction in core benefits, such as restricting the number of hospital days covered during a year or limiting reimbursable visits to physicians' offices. (See the accompanying chart.)

Nonetheless, states are rushing to enact bare-bones benefits laws for two reasons: growing concern about the uninsured and the fact that these laws address that problem without raising taxes.

While the first wave of bare-bones laws concentrated primarily on cutting back state mandates, laws enacted this year have addressed other reform issues, such as insurance rating and underwriting practices as well as tax breaks to entice small employers to offer health plans.

The Iowa law is a model that other states may follow, says Greg Scandlen, publisher of *Health Benefits Letter*, an Alexandria, Va., newsletter that tracks health-care trends.

Under the Iowa law, enacted in May, insurers are limited in their ability to experience-rate small groups, that is, set premiums according to their experience in paying claims for such groups. Moreover, policies are guaranteed renewable. The law also authorizes the state insurance commissioner to adopt so-called guaranteed-issue regulations based on a model law under consideration by the National Association of Insurance Commissioners. The model law aims to insure health coverage for small businesses regardless of employees' health status or claims history.

PENSION PLANS

Audit Program Is Criticized

The chairman of the House Appropriations subcommittee that oversees funding of the Internal Revenue Service has asked the agency to halt its controversial program of auditing small-business pension plans pending the outcome of court challenges to the program. Rep. Edward Roybal, D-Calif., made his comments in June at a session of the Treasury and Postal Service subcommittee. In response, an IRS spokesman said the agency had no plans to suspend the audits, which now are expected to involve more than 12,000 pension plans.

In the fall of 1989, the IRS quietly began auditing thousands of pension plans that cover fewer than five people and deposit more than \$100,000 per individual annually. Since pension contributions are tax-deductible, the agency suspected that many small professional groups were illegally using their plans as tax shelters. The agency projected that the audit program would reap nearly \$666 million in back taxes, penalties, and interest on excess pension-plan contributions.

Critics of the audit program argue that the small businesses under scrutiny used IRS-approved guidelines to set up their plans and that the agency now is attempting to change the guidelines retroactively.

The key issues are the interest-rate and retirement-age assumptions used to calculate annual plan contributions. The previous guidelines permitted all companies, regardless of size, to use interest-rate projections as low as 5 percent and retirement assumptions as low as age 55. But the IRS audit program insists that small companies should have used an interest rate of 8 percent and a retirement age of 65. Although most large companies use assumptions lower than these, the IRS has not challenged their pension plans.

Rep. Nancy Johnson, R-Conn., a persistent critic of the audit program, renewed her attack on the IRS during the Treasury and Postal Service subcommittee hearing. Johnson, a subcommittee member, called the audits "an abomination" that "shatters confidence in government and makes a mockery of fairness in the tax code." She, too, called on the agency to suspend the audits until the Tax Court rules on pending cases.

Since the audit program began, more than 120 cases have ended up in federal Tax Court. To avoid clogging the system, Tax Court Judge Clarence E. Clapp II has consolidated the audit cases under his jurisdiction and picked 25 to serve as test cases to resolve most of the outstanding issues. But no rulings are expected until sometime next year.

Bare-Bones Laws Passed This Year: Eligibility And Benefits

	Group Size	Months Uninsured	Inpatient Coverage	Office Visits	Maternity Care	Well-Child Care
Arkansas	no limit	12	15 days per year	2 visits per year	prenatal & obstetrical (optional)	through age 6 (optional)
Georgia	The law authorizes the insurance commissioner to establish a model health insurance plan for people below 250 percent of the federal poverty level. It calls for coverage of primary services and "significantly lower" premiums.					
Iowa	under 26	12	30 days per year	2 visits per year	prenatal & obstetrical	*
Maryland	2-25	24	10 days per year	10 visits per year	prenatal & obstetrical	*
Montana	under 21	*	*	*	prenatal & obstetrical	through age 2
New Mexico	under 20	6	25 days per year	7 visits per year	prenatal & obstetrical	through age 6
North Dakota	under 25	12	*	*	*	*
West Virginia	no limit	none	20 days per year	4 visits per year	prenatal & obstetrical	*

Source: *Health Benefits Letter*

* No provision made in this category

Small-Business Computing

A new breed of notebooks, readable guides, and a partnership to help small businesses.

PORTABLE COMPUTING

A Mobile Alternative To Your Deskbound Computer

If you do even a little bit of work outside the office and if you are thinking of buying a new computer, consider one of the new breed of notebook machines. The roughly 7-pound computers on display in Atlanta recently at COMDEX Spring, a computer-industry trade show, rival all but the most muscular desktop computers in processing power, yet they are easy to take along when you're traveling.

Almost every computer maker now features these new-age notebooks, which will run—with plenty of zip—almost all of the newest programs, including those that work in conjunction with Microsoft Corp.'s Windows graphical user interface. The new notebooks can be config-

megabytes of RAM, a 40-megabyte hard drive, and a 3-1/2 inch floppy-disk drive; its base list price is \$3,000. It's a bit heavier than some, and its battery charger is also on the bulky side. But I overlooked these small warts because the screen is excellent, and the keyboard is as comfortable as it gets on portables (save for the exceptional IBM PS/2 Model L40 SX, which lists at about \$6,000).

Some programs, including Windows, require a pointing device. To accommodate this demand, I fitted the AST with an ICONtroller. This cross between a mouse and a joy stick allows accurate pointing even in bumpy cars or airplanes because its speed is variable. (The wilder the ride, the slower the speed you select.) The ICONtroller adheres to the laptop's side and plugs into its communications port. Supporting software is a snap to install. And the ICONtroller is priced right: \$99.95, from Suncom Technologies; (708) 647-4040.

I enhanced the AST's screen performance still further with a memory-resident program called Laptop UltraVision, by Personics Corp.; 1-800-445-3311. This dandy little program—it requires 16K of RAM on VGA monitors—greatly improves the legibility of text in a number of ways. Laptop screens generally display 25 lines of text with 80 characters in each;

UltraVision lets you select 25, 34, 50, or 60 lines of 80 characters. It also allows you to choose among a host of fonts.

The program, which lists for \$69.95, also does some "magic": It makes letters appear larger than their actual point size, makes applications written for color monitors look super on notebooks' gray-scale screens, makes the cursor easy to find even in low room light, and speeds up the rate at which applications print to the screen. Despite its richness, the program

is simple to install and customize to your tastes.

Like most notebooks, the AST comes with a standard case that's much too small to accommodate a battery charger, extra batteries, floppy disks, and all the other paraphernalia that

business people generally lug around in their briefcases. At COMDEX, I went shopping for a briefcase large enough to accommodate all my stuff yet small enough to fit under an airplane seat.

The winner, hands down: the line of cases made by Solidex, Inc., of San Dimas, Calif. My favorite was a handsome model with leather trim and adjustable interior partitions; its list price is \$149.95. Other similarly shaped cases range in material from reinforced polyester to aluminum alloy and in price from \$129.95 to \$239.95. For the name of the dealer nearest you, call (714) 599-2666.

—Albert G. Holzinger



PHOTOS: GENE HOGGINS

ured with plenty of memory—up to 8 megabytes of RAM in most cases—and with ample hard-disk storage—generally up to 60 megabytes. The battery life on all these machines is two to three hours. Shop on the basis of screen readability, keyboard feel, and price.

Also be sure the notebook you choose has a full complement of serial, parallel, communications, and mouse ports. You can use them in the office for a printer, full-sized color monitor, and full-sized keyboard. On the road, you may need the ports for a portable printer and modem.

My choice of notebook was an AST Premium 386SX/20 configured with 5

BOOKS

Direct, Entertaining, Readable, Useful

It isn't often that we come across computer books that anyone wants to read—much less to pass on to someone else. But we have received a set that we can't seem to get back from the staff. Produced by Grapevine Publications, these are very small, cleverly written guides to the big software applications. They come in two sizes: brief and very brief.

Even the three titles are a clue that these aren't going to be your standard approaches to software: *A Little DOS Will Do You*, *Lotus Be Brief*, and *Concise and WordPerfect*. The longer versions are called *An Easy Course In DOS*, *An Easy Course In WordPerfect*, and *An Easy*

Course In Lotus 1-2-3.

These books follow Lewis Carroll's recipe for telling a story: They begin at the beginning, go straight through to the end, and stop. No words are wasted, and



nothing essential is left out. And because they are short, you get an overview that holds together.

Of course, brevity is not cheap. The short books—all of them are less than 100 pages in length—are \$11 each; the longer ones (300 small pages) are \$22. But the time you save will pay for them several times over.

—Ripley Hotch

NEW AND IMPROVED

Borland Strikes Again

Less than six months after release of Version 2.0 of **Quattro Pro** comes a new upgrade to this popular and powerful spreadsheet from Borland International, Inc. The principal new features of Version 3.0 include WYSIWYG (which translates as "what you see is what you get") on-screen display, better presentation graphics, and additional printing capabilities.

In the zoomable WYSIWYG mode, what you see on your screen is very close to what you will actually print, a feature that makes formatting faster and easier. New presentation-graphics options include drop-shadow text and digitized sound. And new print features include a print-to-fit command that reduces your spreadsheet automatically to fit on the paper in your printer.

Tightly written Quattro Pro remains the spreadsheet of choice for users with older, less capable computers—as well as many power users. List price of Quattro Pro Version 3.0 is \$495. The upgrade from Version 2.0 costs \$49.95 and is worth it; upgrading from a competing spreadsheet costs \$129.95. Order by calling 1-800-331-0877.

A New Look For An Old Friend

About six months ago we touted a memory-resident information manager, **Info Select** by Micro Logic Corp. You may recall that this clever little program maintains and helps organize random bits of information, including addresses, telephone numbers, appointments, assignments, reminders, notes, thoughts, and more.

Info Select continues to help us organize our lives—but now it meets this formidable challenge a little better. In Version 2.0, the appearance of the program—especially on monochrome monitors—is better.

Most notable among several new features is its so-called neuron searching ability, which allows the program to use your keystrokes to "guess" what information you wish to recall.

Upgrading to Version 2.0 costs \$39.95. New users will have to shell out \$149.95. Micro Logic is in Hackensack, N.J.; 1-800-342-5930.

SOFTWARE, SERVICES

Big Help At Low Cost For Small Businesses

A partnership of Microsoft Corp., Quantum Computer Services, and the U.S. Chamber of Commerce seeks to lend a big helping hand to small-business owners—at nominal cost. Under this arrangement, small-business people can obtain through the Chamber:

- **Version 2.0 of Microsoft Works**, that software giant's industry-leading integrated word-processing, database, spreadsheet, and communications software.

- **Growing Your Business Using Microsoft Works**, a Microsoft workbook and disk that demonstrate ways that Works can be used to solve common problems faced by entrepreneurs, including preparing effective business plans, managing cash flow, and preparing effective business correspondence.

- **America Online**, Quantum's on-line service (and two hours of free access time) that provides lots of useful business information, the ability to network with other small-business owners, and business services such as electronic mail and fax delivery.

- **Concerns of Small Business**, a Chamber publication that answers several of the questions most commonly posed to the business organization by its smaller member firms.

Under the joint agreement, the package of publications and software costs \$139 (Works alone lists for \$149) and is distributed through the Chamber; (202) 463-5533.

Look Inside Your Computer Without Taking It Apart

If you've worked with computers much, you probably have learned the hard way that each one is filled not only with microchips and the like but also with problems waiting to happen. These problems occur mainly when you seek to install some expensive new piece of hardware or software.

Any of several good diagnostic programs can help both before and after trouble arises. One we tested was **System Sleuth Pro**, from Dariana Technology Group, Inc.; (714) 994-7401.

Like others in its class, System Sleuth takes a thorough "look" at your computer's innards and generates reports of its findings. You take this data to your local computer store when buying add-on hardware so the salesperson will know which products are compatible with your machine.

Also, when a hard or floppy disk, memory chip, or other element does fail, System Sleuth can be extremely useful in isolating the problem.

System Sleuth comes with a handy disk of utilities, including memory and file managers and memory-caching software. It lists for \$149, but it costs less at many retail and mail-order software houses.

Diagnostic software such as this is not for everyone, however. To profit from it, you have to know your way around the inside and outside of a computer and be able to cope with documentation seemingly written in the belief that users won't need it.

ACCESSORIES



PHOTO: GENE HIGGINS

Better To Be Safe Than To Repair

Computer users like devices that do things; most overlook the critical power source and never think about line conditioners or uninterruptible power supplies (UPS).

A UPS is supposed to protect your system from a sudden loss of power—say from a downed power line—and such devices certainly do that.

Essentially, when you're plugged into a UPS and the electrical supply is normal, your computer is running off the UPS's battery, which in turn is being charged

through the electrical line. When the power drops, your computer doesn't notice, and you then have about 10 minutes to shut down the system.

But a UPS can do more than that. Almost all buildings have a fairly "dirty" current flow because of outdated wiring. A good UPS smooths that out so you don't have the spikes or drops that put considerable strain on delicate electronic components. You never know that the strain is bad until you have a catastrophic disk crash or a failed chip.

One of the nicest (and nicest-priced) of the UPS breed is from Upsonic. There are single-machine units for as low as \$195; multiple units cost more. The Upsonic PC Might is made well and extremely simple to use. You unpack it, put the fuse in (a nice touch; with the fuse out, there can't be accidental damage in shipping), charge it up, and then plug your machine in. We had a power drop here with the PC Might plugged in, and it chirped loudly to warn us, while the computer kept running happily.

For peace of mind, and to protect your investment, you ought to consider one of these modestly priced devices.

NEW!...THE MOST POWERFUL...MOST ACCURATE CLUB IN GOLF!

The CONTROLLER® HITS 30-50 YARDS LONGER, AUTOMATICALLY CORRECTS HOOKS AND SLICES ...MUST CUT STROKES — OR MONEY BACK!

Put your #3, #4 and #5 woods in the cellar. Tests show our new Controller driving iron can out hit all three by 30 to 50 yards.

And that's only half the story. The Controller automatically corrects hooks and slices! The club is so powerful, so accurate, we unconditionally guarantee it will cut 5 to 10 strokes off your score — or you owe us nothing! In fact, to prove it we'll send you one risk-free.

Test it against your #3 wood. If it doesn't give you 30 more yards (if you are a fairly good golfer), send the club back for a refund.

But it will give you 30 more yards! In fact, the Controller is so powerful many golfers use it off the tee, especially on narrow fairways.

Here is the Controller's exact distance advantage as compiled by some low-80's golfers.

CONTROLLER®	220 yards
#3 Wood	190 yards
#4 Wood	180 yards
#5 Wood	170 yards

Now test the Controller's accuracy against your 3-iron. Purposely hit a shot off the *toe* of each club and watch what happens. Your 3-iron will *hook* the ball violently—the Controller will keep it down the middle! The same is true with *heel* shots. Your 3-iron will *slice* the ball violently—the Controller will automatically keep it on course!

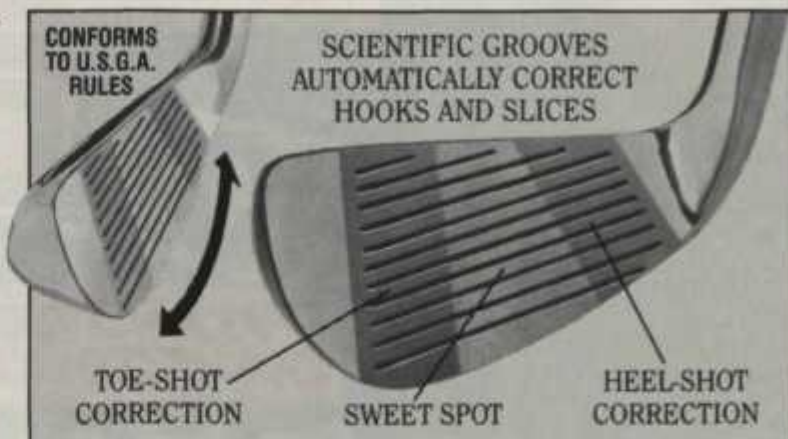
THE GREATEST STROKE-CUTTER IN GOLF

These scientific breakthroughs make the Controller driving iron the most powerful strokecutter in golf. We believe the club will transform the game. First of all, it obsoletes fairway woods! The Controller not only hits 30 to 50 yards farther than fairway woods, it automatically corrects hooks and slices! Here's how it works.

AUTOMATIC ACCURACY

The Controller has an *invisible curve* across its hitting surface—a curve that's going to revolutionize your game. *No other iron has it!* Hit a shot off the Controller's sweet spot and it will go straight, as it would with an ordinary iron. But even pros hit off the heel and toe.

Now, here is the Controller's genius...here is why you could cut as many as 10 strokes off your score. Hit the ball off the Controller's heel or toe and its invisible curve will automatically impart a corrective spin to what would otherwise be a disastrous hook or slice. The ball will actually fade or draw back on course! It's an incredible sight and you can prove it to yourself with only a few test shots. **THIS IS THE MOST IMPORTANT GOLFING BREAKTHROUGH IN GENERATIONS. ALONG WITH THE CONTROLLER'S EXTRA 30-50 YARDS, YOU SHOULD EASILY CUT 5-10 STROKES OFF YOUR GAME!**



Here are more reasons why the Controller driving iron is going to give you the best golf of your life...

- it gives you the power of a driver with the control of an iron...
- its sleek, smooth head swoops through grass more cleanly than a wood...
- its 17° loft gets your shot up faster than a #3 wood...
- its smaller head size (versus a wood) boosts clubhead speed...
- its boron-graphite shaft model adds even more clubhead speed...
- it lets you carry more wedges and putters without exceeding the 14-club limit (by eliminating your #3, #4 and #5 wood)...

The Controller is new and supply is limited. You must act now and remember, you are completely protected. If the Controller doesn't cut 5-10 strokes off your score, you may return it (undamaged, of course) for a prompt refund of its price.

FREE!

...just for trying the Controller! Keep your new power pin-high with a \$15.00 Rangefinder! It's yours to keep FREE! even if you return the Controller for a refund. NOW

YOU CAN RANGE YOUR NEW DISTANCE LIKE AN ARTILLERY OFFICER. No batteries required. Clips to belt.



HOW TO ORDER

Send your name, address and check (or credit card number and expiration date) to the NATIONAL GOLF CENTER (Dept. DR-179), 500 So. Broad St., Meriden, CT 06450. Or call 203-238-2712 (8-8 PM, M-F). The steel-shaft CONTROLLER costs only \$59.00; the carbon-graphite model costs \$89.00. Add \$4.75 for s/h/ins. CT and NY must add sales tax. Specify regular or stiff flex, right or left-handed. No P.O. boxes, all deliveries are UPS. A refund is guaranteed if a club is returned undamaged within 30 days. Clubs are also available in ladies size, steel or graphite, same prices.

CONTROLLER DRIVING IRON

ORDINARY IRON

THE CONTROLLER HITS LONGER AND STRAIGHTER THAN ANY OTHER CLUB IN GOLF. IF IT DOESN'T CUT 5-10 STROKES, YOU OWE US NOTHING! ACT NOW!

MANAGING

How To Promote Without Bias

By Thom K. Cope

Employers are generally aware of federal laws prohibiting discrimination in hiring and firing, but they often do not realize that similar considerations apply to promotions.

Basically, it is as illegal to apply different standards for promotion to different members of your work force as it is to apply them to hiring. You may not use subjective standards that have a disparate impact on protected groups in either case.

Under federal law, protected groups are defined in terms of race, national origin, sex, age, handicap (with disabled veterans a separate category), and military service in the Vietnam era. All criteria that you use in deciding who is to receive the promotion must be free of bias toward any and all workers who fall into any of those divisions.

One set of guidelines with which you should be familiar was handed down in a decision by the U.S. Circuit Court of Appeals for the 5th District. In it, the court held that these practices were unacceptable in selecting individuals for promotion:

- A foreman's recommendation was the key to the promotion.

- Foremen were not given any written instructions pertaining to qualifications necessary for promotion.

- Standards were vague and subjective.

- Hourly employees were not notified of promotion opportunities or of the qualifications necessary to qualify for the higher position.

- There were no safeguards established by the company to avoid discriminatory practice.

Employers must be constantly on guard to be sure that promotion policies that appear to be neutral on paper actually avoid any discrimination when put into practice.

Here are positive steps that can be

Thom K. Cope is a Nebraska attorney who specializes in employment law and conducts seminars and lectures nationwide on that subject.



ILLUSTRATIONS: BILL COULTER

Develop a system that enables all employees to learn about promotion opportunities on an equal basis.

taken to avoid costly and disruptive lawsuits by employees who allege discrimination after having been denied promotion:

Provide opportunities through a job-bidding procedure or during a performance evaluation for employees to declare their interest in specific promotion opportunities. Notify your employees that they are expected to identify a higher position in which they are interested and that a general statement that they would someday like to have a better job is not sufficient.

Conduct performance evaluations on all employees on the basis of written specifications and standards related to the job. The appraisal should also be in writing. Schedule meetings with individual employees so they can review and

These guidelines can help you avoid costly, disruptive lawsuits by employees alleging bias in promotions.

sign their evaluations. (If an employee refuses to sign an evaluation, have a management representative witness that it was presented to the employee and have the witness sign a statement to that effect.) Remember: The performance appraisal the supervisor fills out today can be the difference between winning and losing a charge of discrimination or lawsuit tomorrow.

Let employees know what is expected of them in terms of job performance.

Give employees a chance to improve once they are put on notice that performance is below par.

Maintain records of promotions according to protected groups.

Train supervisors to keep a diary on employees' work performance and behavior. This can assure that employees are not measured on the basis of most recent actions, either good or bad, that the supervisor remembers.

Maintain accurate logs of attendance and tardiness.

Develop a system to alert employees to promotion opportunities as well as to give them an opportunity to state their interest in openings of which they become aware.

There are also some actions that you should avoid in selecting employees for promotion. Most important, you *should not*:

- Base promotion decisions exclusively on the supervisor's visual observations and comments without reference to objective documented factors.

- Make decisions without giving employees an opportunity to express interest.

- Summarily dismiss an employee's interest in a promotion opportunity.

- Tell employees that they would not be considered because of such generalizations as "It's a man's job" or that they

would not like the environment of the new job because "It's male" or "It's white."

■ Use educational levels as criteria for promotion unless specific educational requirements have been professionally certified as related to the job.

■ Maintain the status quo if statistics reflect underutilization of minorities and females at higher levels.

■ Make promotional decisions without input from employees on their particular interests.

■ Evaluate on such subjective measures as attitude.

■ Allow one person to make promotional decisions.

■ Impose barriers not related to the job, such as depriving a person of seniority when promoted from one department or plant to another. (It is permissible, however, to require specified periods in company employment or in a current position as qualifications for being considered for promotion.)

Provided there are no discriminatory elements involved, an employer may establish preferences for considering candidates for promotion on the basis of documented, objective criteria. For example, a preferential listing might apply in this order: to employees in the work group where the opening exists; in the department where the opening exists; in related occupation groups outside that department; and to those in any department whose training, experience, education, and seniority would seem to warrant whatever expenditures may be required to qualify them for a higher position.

Where qualifications of two or more applicants are relatively equal, seniority can be a major consideration in the selection decision.

If damages are awarded against you on the grounds that you discriminated in making a promotion, they could take the form of "front pay," which anticipates an eventual promotion. In such cases, a court has determined that you should

have promoted the complainant, but it will not order you to terminate or demote the person who received the promotion. The court will, however, require you to pay the complainant the salary that would have been received in the higher position. That will go on until another promotion opportunity occurs, at which time you will have to give it to the complainant.

If your employment practices, including promotion policies, are held to be discriminatory, plantwide or companywide, the court may order you to establish hiring or promotion quotas. The theory is that quotas are acceptable in order to correct past discrimination. The company must then hire a stated percentage of minorities until the percentage in the workplace more closely resembles the percentage of that minority in your community or geographical area.

Remember that for an employee, the filing of a discrimination charge is a simple process. A worker doesn't have to hire an attorney but can initiate a complaint simply by presenting it to a local office of the agency that enforces the state's fair-employment laws or to the U.S. Equal Employment Opportunity Commission.

The cost to the employer in time, effort, and legal fees begins to run at this point. Even if the employer should prevail at some step along the way, the cost is significant.

That's why it is important to do things right, to document policies and administer them uniformly.

Adapted with permission from *Executive Guide to Employment Practices: A Practical Approach to Avoiding Unintended Discrimination*, 2nd Edition, by Thom K. Cope, J.D. ©1991; published as part of the "Pinstripe Series" by Media Publishing, a division of Westport Publishing Group, Lincoln, Neb. 68510; \$14.95 paperback. 1-800-366-3342.



Don't impose barriers unrelated to the requirements of the higher position the employee is after.

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Family Business

The mark of each generation; the value of trust in business ties; a son's distressing exit plan.

COMMENTARY

Looking At Life Cycles—With A Twist

By Sharon Nelton

Family-business experts have long encouraged family-business members to try to understand one another's stages in the cycle of life. For example, are your parents in their late 50s and balking at what you, in your middle 30s, want to do with the business they founded? They probably want to preserve what they've built and look forward to a secure retirement, while you may see a need for the business to move in some

For example, if you are a typical *Nation's Business* reader, you are 46 years old. According to Strauss and Howe, you are in the early Boom generation, an Idealistic one representing people born from 1943 to 1960. You and your peers grew up as indulged youths after a crisis (World War II), but you inspired a "spiritual awakening" as you came of age (the anti-Vietnam war movement, environmentalism).

Suppose your parents are GIs, members of a Civic generation born from 1900 to 1925. They survived the Great Depression and World War II. Theirs is the most confident, can-do generation of the century, according to the authors. It led the war you may have protested and has controlled the White House for 30 years.

As generations move through life, they will take their respective personalities with them. As you reach your 50s, the authors say, you will "assume control of national politics with the same perfectionism and moral zeal" that you now apply to family and community life. Meanwhile, your aging doer parents have been busy creating the first "seniors only" communities.

For the fascinating details, you can obtain the 538-page book (and that's *very small type*), or you can go to your library for a short but comprehensive excerpt in the April issue of *American Demographics* magazine.

Are the authors' characterizations of the generations accurate? I think so. Still, they have a Zodiac-like quality—all of us can find something of ourselves in these new signs. ("Hello. I'm Sharon, a Silent. Our generation doesn't have firm answers to anything, but we're great at personal communication.")

Whatever you think about *Generations*, it should stir some provocative discussion at dinner on Sunday—and perhaps offer family members a new way to look at one another.

**Here's
something to stir
some provocative
discussion at
dinner on Sunday.**
—Sharon Nelton



PHOTO: AMANDA BALDREGE

untested—and risky—new direction.

Looking at life cycles this way helps parents and children come to grips with their own and each other's needs as they relate to the needs of the business.

But, whoa! Now some folks are saying that there is no such thing as a "universal life cycle" with a predictable beginning, middle, and end. Authors William Strauss and Neil Howe offer a new theory: Each generation in the U.S. has its own personality and will go through the life cycle in its own special way.

In a new book, *Generations: The History of America's Future, 1584 to 2069*, (William Morrow & Co., \$22.95), Strauss and Howe also suggest that types of generations recur in predictable order: Civic, Adaptive, Idealistic, and Reactive. These types are shaped into distinctive generational personalities, they say, by major events such as war and depression and by the age of each generation at the time such events take place.

PLANNING

Trust Gives You The Advantage

By John L. Ward and Craig E. Aromoff

You've heard older people talk about it. "A man's word used to be his bond," they say. "Business was done on a handshake—on trust. But now, it's all lawyers and fast talk and sue, sue, sue! Those days when you could trust somebody are gone."

There was a time when business was based on relationships, often family relationships. "I knew your father. I knew your grandfather"—these were common statements that meant "I know your values, your background, your reputation, and how important your reputation is to you. So we can do business based on trust."

Today things are different. Too many organizations seem faceless and uncaring. Employees seem to come and go constantly. New management comes in or a policy is altered, and everything changes. People who make decisions aren't around to implement them.

We know of a dynamic family firm that was excited by the prospect of a lucrative new venture. Success, however, required a reliable, trusting relationship with a large supplier. The smaller firm hesitated.

"We've had bad experiences dealing with bureaucratic companies," lamented the family firm's leader. "They're too shortsighted. In the long run, they pay for it, but they don't seem to care."

The enthusiasm for the opportunity was further dampened by the family company's fear that the supplier might someday renege on the relationship.

Instead of moving profitably forward, the owners pondered questions such as: "Can we trust them? Are their key people all informed and in agreement? Or will they go into our business and compete with us?" Precious time ticked away, and legal fees piled up as the family business's executives waded through layers of the supplier's managers seeking real decision makers and sewing up an agreement that seemed airtight.

With a clear notion of their own history and values, the owners of the fam-

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ily firm longed, as they put it, "for the good old days, when business was done on the spot."

But business relationships are not determined by the times; they are determined by the leaders. Some firms have eschewed the kinds of policies and practices that build commitment, loyalty, and trust. However, family firms that retain such fundamental values as guides to decisions and operations find themselves at a strategic advantage.

Family enterprises that demonstrate their commitments to venture partners or to the communities where they do business win confidence and trust. They make commitments more quickly, and their commitments tend to be long-last-

tively informal. Others include more formal joint ventures or a variety of subcontracted or cooperative arrangements. They are used for purposes such as:

- Sharing technology, so that the businesses involved can reach more customers more quickly before the technology is copied or becomes obsolete.

- Sharing sales forces to get more coverage and make selling less expensive.

- Sharing marketing programs, to make promotion, mailing, and advertising more cost-effective.

- Subcontracting manufacturing, so that the contracting company can reduce costs and capital expenditures and increase its focus on what it does best, such as design and marketing.

As we've said before in this column, having your family's name on the door of your business intensifies concerns for quality and service. As customers see these concerns demonstrated in products and services and in a caring attitude toward the community, their trust for your business builds, and your company, in turn, prospers.

Some consider family businesses to be hopelessly behind the times.

On the contrary, we find that commitment to trust, reliability, and mutual benefit is exactly the kind of old-fashioned thinking that ideally positions family firms for the future. "What you see is what you get" is an old idea—but

an important old notion that's new again.

With the reputation of your family on the line, with your personal integrity behind every handshake, and with the economic future of your heirs at stake, owning a family business is not only a significant responsibility but also an opportunity for an increasingly valuable competitive advantage.



PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

Aug. 25-29, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adults. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

Sept. 21-22, Philadelphia

The University of Pennsylvania's Family Business Network has openings for new members and will have its 1991-92 initial meeting on these dates. "Networks" are groups of family-business members who meet on an ongoing basis for educational programs and to learn from one another. Write or call Carol Vassian at the above address or phone number.

Sept. 26, Ann Arbor, Mich.

The first in a series of meetings for family-business owners and managers offered by the Newport Institute for Family Business. Participants discuss common challenges and get professional consultation. Contact The Newport Group, 455 East Eisenhower Parkway, Suite 140, Ann Arbor, Mich. 48106; (313) 769-8000.

Sept. 27, Madison, Wis.

The Family Business Conference covers such topics as conflict resolution and business perpetuation. Contact the Small Business Development Center, University of Wisconsin, 905 University Ave., Room 203, Madison, Wis. 53715.

Nov. 14-17, Miami-The Bahamas

"Advancing the Family Business," a seminar led by international management consultant F. Eugene McGrath aboard the Royal Caribbean cruise ship Emerald Seas. Contact Richard Polk, Captain Cruise, Inc., 2040 Broadway, Schenectady, N.Y. 12306; 1-800-347-3933.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20002.



ILLUSTRATION: DAVID CHEN

ing. They require less hassle. Often, people recognize these advantages of dealing with family companies and therefore prefer to do business with them.

In family firms, decision makers are easily identifiable and often directly involved in the implementation of their decisions. Owners' actions are tempered by the recognition that their reputations—and those of their heirs—are on the line. What you see is what you get—for a long time to come.

Because reliable, trusting relationships seem rare in today's business world, they are not taken for granted. Smart business people know that trust reduces the costs of doing business.

Rapid rates of change and today's intense competitive pressures for speed, efficiency, and flexibility are driving all kinds of businesses to a variety of close working relationships that require foundations of trust, reliability, and long-term orientations. Because family firms so often foster such values, they are seen as desirable participants in such partnerships.

Some of these relationships are rela-

CASE STUDY

Shocked By A Son's Plans To Depart

Jack Brown has just learned that his eldest son, Bill, 36, plans to join some friends in founding a management consulting firm. This news comes as a shock to Jack. He is 58 and has been expecting that, in a couple of years, Bill would take over the manufacturing company that Jack founded long ago. Bill is now plant manager and has worked for his father for the 15 years since his graduation from college.

In fact, Jack, a widower, recently made out his will, leaving his stock in equal shares to Bill and Bill's younger brother, Tom. He is leaving his nonbusiness assets to his daughters, Marie and Nancy.



ILLUSTRATION: DAVID CHEN

Tom, 33, left college after his junior year to work with an oil wildcatter, but he joined his father's company two

years ago and has been putting his technical knowledge to good use as a first-line supervisor.

Marie also dropped out of college—to get married. Now divorced, she works part time in the company's accounting department to support herself and her 8-year-old son. Nancy is a college junior, majoring in engineering.

Jack has discussed neither his retirement plans nor his will with any of his children, not even Bill. He recognizes that while his relationships with his children are caring, they are also contentious. Bill frequently complains that he is given responsibility without direction and then is criticized when he does something Jack does not expect.

Fortunately, Jack's children are all bright and get along well. But Bill leaving the company? That's a real blow. What can Jack do?



PHOTO: JAMES ZICH

Give Bill Reasons For Staying On

Moni Murdock, a family-systems consultant in Evanston, Ill., and a partner in Murdock & Murdock, a family-business consulting firm:

If Bill knows that it is Jack's intention to have him take over the business in the near future and that he can expect a more cooperative relationship starting now, he may pass up the consulting opportunity.

Jack's immediate task is to rectify his failure to communicate his goals to Bill and to implement an effective succession process. He also must begin now to focus more on mentoring and less on criticizing. He needs to provide direction to Bill but then give him the authority to accomplish the goals in his own way. Bill cannot be expected to do things exactly the same way Jack does.

In the long run, Jack's estate plan may cause trouble. From Bill's perspective, leaving the stock equally to the brothers may not seem fair—Bill will need a controlling share if he is to run the business effectively. From the daughters' perspective, they are permanently cut off from an ownership opportunity. Jack needs to discuss with all of his children their interest in the business and their ability to contribute to its success.

Jack could explore various planning alternatives, such as giving controlling shares to Bill, or giving shares equally to all the siblings or to those who become active in the business. The first alternative may be premature, since Jack has not yet given Bill chief-executive responsibility and since it forever excludes the others. Nancy is a generation behind Bill and one day could succeed him if the interest and talent are there.

Whatever alternative Jack chooses will require active team building among the children to prevent future disputes. Jack would do well to see that team-building opportunities are created and to encourage the process. Meanwhile, although executing a will is prudent today, Jack should have a few years to watch his offspring develop before he makes irreversible decisions.



PHOTO: ROBIN POMERAI

Take A Look At Expectations

Cynthia Iannarelli, a second-generation family-business owner and training coordinator at the University of Pittsburgh's Small Business Development Center:

This scenario concerns the expectations each generation has about the family business. Jack is disappointed about his son's plans to leave the business, while Bill could be disappointed about several issues that influence his decision to leave.

Bill has invested 15 years in his father's company. Surely he is disappointed that his father hasn't begun to discuss retirement—for Bill, this translates into a lack of succession planning on his father's part. It is also my hunch that even though he hasn't been told, Bill suspects the stock is being distributed in a way that's different from what he hoped.

What can Jack do? First, he should assess his own needs and expectations about the future of the company and the role of each child. He should then ask his children to do the same. Together, they should develop a plan that may give Bill the opportunity to stay on or may leave open the possibility of his rejoining the business after he gains some outside experience.

What can the children do? First, they should do a personal assessment of their strengths and weaknesses and determine what they can contribute to the company. They also should investigate other experiences that would strengthen them in their respective roles, such as additional schooling or work outside the company.

The children also should appreciate their father's commitment to the company and try to help him in his retirement planning by looking for opportunities where he could be involved again—such as overseeing special projects.

These processes usually are very difficult to carry out as a family, and Jack may wish to bring in a "facilitator," such as a therapist or a consultant specializing in family business. The time that can be saved with professional help is usually well worth the cost.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Johnstown, N.Y.

FRANCHISING

Financing Your Franchise

By Meg Whittemore

The greatest challenge for a would-be franchisee often is obtaining a loan for the purchase price. This is especially true if the prospective franchisee has little or no collateral to put up for the loan.

Yet enterprising prospective franchisees are finding that there are imaginative ways to finance the purchase of a franchise. Discovering them usually takes persistence and creativity.

Imagination certainly describes the approaches that Gina and Mark Edwards took in assembling the financing they needed to buy their Pak Mail franchise in Apopka, Fla. Pak Mail is a franchise offering shipping, packaging, and mailing services to residential and business customers.

The Edwardses started their search for financing at their local bank and ended up with a patchwork of funding that included loans from family members, liquidation of personal assets, a special rent agreement, and a delayed fee payment to the area distributor who helped them buy the franchise.

First, the couple went to their banker for the needed \$65,000. The Edwardses presented a thorough business plan that included a complete description of the business, a professional background profile on each of them, personal financial statements, marketing data on the proposed store site, sales and profit projections, and the overall potential of the franchise.

"The loan officer said it was one of the best business plans he'd ever seen, but he still had to turn down the loan," says Gina Edwards. "We didn't have a whole lot to offer as collateral."

Even though they were turned down for bank financing, Pak Mail approved the Edwardses as future franchisees. "They saw the potential in us and decided to support our dream," says Gina.

Undeterred by the bank's rejection, the Edwardses approached their family members for help. "I have a stepdad who owns his own business, and he's



Juicy Lucy's fast-food restaurants feature double drive-through lanes.

been through the same kind of thing himself," says Gina. He lent the couple \$10,000, and Mark's parents matched that amount.

The Edwardses then took an inventory of their personal assets and liquidated everything they could—IRAs, insurance policies, savings bonds, and other miscellaneous possessions—which netted them \$28,000.

Pak Mail stepped in to help with lease negotiations. "They put in penalty clauses with the [shopping mall] developer, which provided us with free rent if the project wasn't finished on time," says Gina.

The Pak Mail area distributor who sold the Edwardses their franchise offered to wait for his fee of \$7,000 until the couple's store was operating. "That brought us up to \$53,000," says Gina, "and we managed the rest through our individual personal lines of credit."

The Edwardses opened their Pak Mail store on Jan. 15, 1990, with a total start-up investment of \$57,000 (Pak Mail recommends \$60,000 to \$80,000 for start-up). They kept costs down by doing the painting and other work-space finishing themselves. "We had the help of a lot of friends," says Gina.

When easy access to financing is denied, imagination and persistence can sometimes generate the necessary capital.

Pak Mail's lease negotiations have translated into six months of free rent, which reduced the store's first-year rental costs. "From a new-business standpoint, that meant we saved \$11,000 to \$12,000," says Gina. "We were fortunate to have a good franchise like Pak Mail behind us because they did some things that helped us get through that first year."

Gross sales in their first year totaled \$124,000, higher than even the Pak Mail corporate office had expected. Located in a growing suburb of Orlando, Fla., the Edwardses' business is expected to achieve a 60 percent increase in gross sales during its second year of

operation.

Says Gina Edwards: "Looking back on it, I'm glad the bank didn't give us the loan because the way our debt is structured now, our monthly payments are half of what they would have been with a conventional bank loan." As a result, the business has more financial flexibility now, she says.

Her advice to would-be franchisees struggling to find financing? "Be imaginative. Don't always think that a conventional bank loan is the best way to go. Look at alternatives that go beyond the way financing has always been done."

For Dan Smith, financing the purchase of a Juicy Lucy's franchise in Naples, Fla., became a challenge in creativity. Juicy Lucy's is a fast-food hamburger restaurant featuring two drive-through lanes. The chain is the brainchild of Robert Massie and Suzanne Grady, longtime restaurateurs in Fort Myers, Fla.

Typically, Juicy Lucy's are free-standing locations adjacent to a strip shopping mall. Earlier this year, Smith noticed a developer's sign on a land parcel in Naples, and after researching the traffic flow and the success of adjacent businesses, he decided the location was ideal for the franchise.

"The land was zoned for business, and

the developer was building a strip shopping center," says Smith. Total start-up costs for a Juicy Lucy's range from \$325,000 to \$375,000—too high for Smith to handle comfortably. "I am 43 years old, with three kids, and I am not going to take a lot of risk," he says.

Smith, a real-estate agent in south-west Florida, first tried to buy a section of the shopping-center land parcel. The owner "wouldn't section off a piece of the parcel," he says, but did "put me in touch with the developer, which was something new for me, since I'd never worked with a developer before."

Smith explains: "I just got creative with the developer." He formed a partnership, working out an arrangement, called build-to-suit, in which the mall developer builds the Juicy Lucy's and charges Smith a monthly rental.

Instead of Smith's assuming the cost of building construction (and the risk, if the center failed to attract tenants), the developer assumes the risk. In exchange, the developer "gets a solid tenant who generates an instant income flow in their center even before the rest of the project is completed," says Smith.

Smith's investment is the \$25,000 franchise fee, an equal amount in working capital, and a \$95,000 loan package for equipment leasing. "My liability is half of what it would be if I had bought

the franchise outright," says Smith.

"Here I am in a prime location, with building and site improvements of about \$225,000, and my rent is \$55,000 per year frozen for five years," says Smith.

Smith's Juicy Lucy's opens this summer and joins five other franchised units in Florida. Total systemwide sales were \$2.2 million in 1990.

If you are interested in a fast-food restaurant, says Smith, and "you see a sign on the side of the road, contact the developer and try to put a deal together with them. You might be surprised at what you come away with."

Persistence and creative debt structuring helped Dave Powell get his first Gingiss Formalwear franchise in Lubbock, Texas. Gingiss International, headquartered in Chicago, is the parent company of the specialty-store franchises offering the rental and sale of men's formal wear and accessories.

In 1978, Dave Powell was graduating from Texas Tech College in Lubbock with a degree in business management. During his college years he had worked part time at a Gingiss franchise. Powell also co-owned a sandwich shop on campus, and when he and his partner sold the enterprise in early 1978, Powell netted \$12,000.

"I decided I wanted to buy the Gingiss franchise," says Powell. "It was a real sleeper, and I knew that under the right management, it would be a money-maker."

He approached the owner with his idea and was turned down—several times. Finally, the Gingiss franchisee relented and agreed to sell the store to Powell for \$130,000.

"I went to the bank with my \$12,000 of collateral, and I was turned down flat," says Powell. Undiscouraged, the would-be franchisee restructured the business deal, and the store owner agreed to sell the business for \$110,000. "The bank was unimpressed," says Powell, "so we went back to the drawing board."

After two more attempts, Powell and the Gingiss store's owner agreed on a selling price of \$90,000. Four rejections from the same number of banks followed, but Powell refused to quit.

"I just made up my mind that I was going to have that store, and that was all there was to it," he says. After another restructuring of his plan, three more presentations at the bank, and two applications to the U.S. Small Business Administration's guaranteed-loan program, his loan requests were approved.

Powell and the Gingiss franchise own-

Continued on Page 50

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Preparing A Loan-Proposal Package

By Andrew J. Sherman

Finding the money needed to buy a franchise is getting easier because more banks and nonbank lenders are viewing franchising as a safe investment. However, the process of obtaining loans remains time-intensive and somewhat complicated.

The first step toward securing a loan from any source is to prepare a loan-proposal package. The package contains several sections, including a business plan for the franchise.

Lenders typically want the package to show that the prospective franchisee has a strong management team and an experienced and supportive franchisor. It should also include personal financial statements showing net worth and sales projections that demonstrate the ability to service the debt.

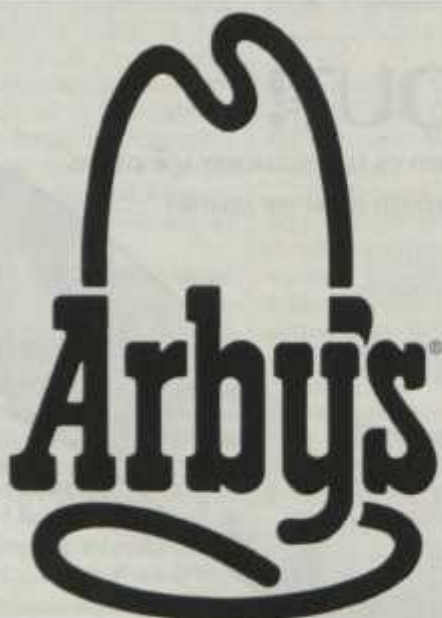
You also should expect to show the lender how the accounts receivable program works; the proposed relationships with suppliers, distributors, and employees; and an understanding of the trends in the marketplace.

Most loan officers will apply the traditional test of the so-called "four C's" of credit worthiness—character (reputation and honesty), capacity (business acumen and experience), capital (ability to meet debt-service payments), and collateral (access to assets that can be liquidated in the event of a default).

Many franchisors offer assistance to the prospective franchisee in preparing a business plan and a loan-proposal package. Often, the franchisor maintains a working relationship with one or more lenders and will provide access to them for the franchisee.

Although most prospective franchisees turn to traditional forms of financing from commercial banks—such as construction loans, term loans, and operating lines of credit—there exists a wide variety of alternative sources of debt financing. They include:

Direct financing and/or loan guarantees. About 30 percent of franchise companies offer some form of financial assistance—usually in the form of helping the franchisee find a bank or other lender. Some franchisors offer direct financing, loan guarantees, and a mixture of leasing programs on property and equipment needed to operate the business. (Note: If the franchisor does not demonstrate some knowledge and ex-



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pertise in financial assistance, then look for another franchise.)

Trade credit. The use of credit with key suppliers is often a means of survival for small businesses. When a company has established a good credit rating with its suppliers but, as a result of rapid growth, tends to require resources faster than it is able to pay for them, trade credit becomes one way that growth can be sustained.

Equipment leasing. Most retail franchises need to use—though not necessarily own—equipment for fueling and maintaining growth. Leasing offers an alternative to outright ownership of the equipment. Monthly lease payments are made in lieu of debt-service payments.

Factoring. Under the traditional factoring arrangement, a company sells its accounts receivables to a third party in exchange for immediate cash. The third party, or "factor," assumes the risk of collection in exchange for the ability to purchase the accounts receivables at a discount.

Equity financing. Prospective franchisees have successfully pursued a wide variety of equity financing strategies. For example, there is a form of

private placement offering that allows the franchisee to solicit capital from family, friends, and business contacts in exchange for equity ownership in the entity that will operate the franchises.

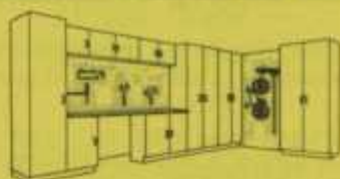
Miscellaneous sources of nonbank debt financing. Debt securities, such as bonds, notes, and debentures, may be offered to venture capitalists, private investors, friends, family, employees, insurance companies, and related financial institutions by the franchisee.

To finance the purchase and growth of their business, many smaller companies turn to traditional sources of consumer credit, such as home-equity loans, credit cards, and commercial finance companies. In addition to the U.S. Small Business Administration's loan programs, many state and local governments have direct loan programs for small firms.

Before pursuing any of these alternative methods of debt financing, however, consider hiring an accountant who is experienced in helping franchisees obtain financing.

Andrew J. Sherman is a Washington, D.C., attorney and is the author of Franchising & Licensing: Two Ways to Build Your Business, published by AMACOM Books.

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In February, SUCCESS magazine named their Top Ten business service franchises, rated in terms of potential growth. AlphaGraphics is #1.

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FRANCHISING

A Directory Of Lending Sources

The following list is a cross section of lending institutions and businesses that offer loan services to individuals and groups interested in owning franchises.

Allied Lending Corp.

(subsidiary of Allied Capital Corp.)
1066 K Street, N.W., Suite 901
Washington, D.C. 20006
(202) 331-1112

AT&T Commercial Finance Corp.

5613 DTC Parkway, Suite 450
Englewood, Colo. 80111
(303) 741-4144

CAOTEC Financial Group, Inc.

315 East Eisenhower Parkway,
Suite 315
Ann Arbor, Mich. 48108
(313) 994-5505

First Commercial Bank, NADBA/ First Commercial Capital

P.O. Box 1960
Seguin, Texas 78155
(512) 379-0380

Guaranty Capital Co.

18301 Biscayne Blvd., 2nd Floor South
N. Miami Beach, Fla. 33160
(305) 933-5858

Gulf American SBL, Inc.

P.O. Box 191
Panama City, Fla. 32402
(904) 769-3200

Independence Mortgage, Inc.

3010 LBJ Freeway, Suite 920
Dallas, Texas 75234
(214) 247-1776

ITT Small Business Finance Corp.

2055 Craigshire Rd., Suite 400
St. Louis, Mo. 63146
(314) 576-0872

Kanally Trust Co.

4550 Post Oak Place Drive, Suite 139

Houston, Texas 77027
(713) 626-9483

LoanSource Financial Services

3840 North 32nd St., Suite 1
Phoenix, Ariz. 85018-4929
(602) 954-0062

The Money Store Investment Corp.

17530 Ventura Blvd., Suite 206
Encino, Calif. 91316
(818) 906-2999

National Cooperative Bank

1630 Connecticut Ave., N.W.
Washington, D.C. 20009
(202) 745-4691

National Westminster Bank USA

Franchise Finance Unit
592 Fifth Ave.
New York, N.Y. 10036
(212) 602-2842

Pacific Funding Group

17782 Cowan Ave.
Irvine, Calif. 92714
(714) 474-1788

SANWA Business Credit Corp.

One South Wacker Dr., Suite 3900
Chicago, Ill. 60606
(800) 331-5247

Schulze & Associates

1701 Lake Ave., Suite 255
Glenview, Ill. 60025
(708) 998-4500

Stephens Franchise Finance

1400 Worthen Bank Building
Little Rock, Ark. 72201
(501) 374-6036

Continued from Page 47

er agreed that the owner would take a \$30,000, interest-free note from Powell, payable in five years. That left a \$60,000 loan that was collateralized by the business, the equipment, inventory, and building.

Powell became owner of the Gingiss store in December 1978; sales that year were \$130,000. The following year, under Powell's management, sales jumped to \$215,000. Since then, the Lubbock store has ranked among the top 10 Gingiss stores nationwide, with current sales totaling over \$500,000.

All told, Powell made 14 presentations to seven different banks before he obtained financing. "[The bankers] just got sick of seeing me coming," he says, "and they realized that I was just not going to give up."

Powell went on to acquire a second Gingiss franchise, in Corpus Christi, Texas, in 1980. He went into partnership with his brother Richard for the store, and five years later he sold his interest to his brother.

Powell repeated the partnership approach with another brother, John, and the two bought the Gingiss franchise in Amarillo, Texas. Powell has since sold his half interest to John. "I believe in growth from within an organization," he says. "People who work with you for several years know the business and make excellent choices for franchisees."

Powell's "can-do" attitude is a mark of the true entrepreneur. He structured the financing for a total of five Gingiss franchises using his partnership approach. He sold his interest in all of them but one—the Lubbock store—and is currently a partner in two Midas Muffler franchises in Dallas.

Powell says he plans to maintain a careful but creative growth strategy and a manageable debt load.

Sometimes a franchisor will offer a partnership to an undercapitalized but otherwise qualified prospective franchisee. Virginia Clausen, manager of The Coffee Beanery, Ltd., in Dearborn, Mich., decided in 1986 that she wanted more than just employment—she wanted to own her own franchise.

Clausen was living from paycheck to paycheck, she says, but she started talking about franchise ownership with The Coffee Beanery's president and founder, JoAnne Shaw. The Coffee Beanery is a gourmet coffee retail franchise based in Flushing, Mich.

The two women formed a partnership. Clausen, in the midst of a divorce, invested her entire divorce settlement of \$20,000 in the partnership. Shaw invested \$30,000 of her own money and co-signed for an additional \$40,000 to get

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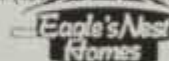
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the franchise started in Grand Rapids, Mich.

Two years later, Clausen bought out Shaw, in accordance with their agreement. Sales at Clausen's Coffee Beanery were \$370,000 in 1990 and are expected to reach \$425,500 this year.

It was another franchisor with a helping hand who enabled Debra Janos to start her own business. Six years ago, Janos began at the bottom—cleaning part time for the Merry Maids cleaning franchisee in Parker, Colo. She soon became a full-time maid and was then promoted to office manager.

"As a manager, I began to learn the risks and rewards of operating a franchise," says Janos. In 1990, she attended a Merry Maids convention and realized she wanted to own her own franchise.

"I needed \$18,000 for the franchise fee and another \$10,000 for the equipment and computer software," she says. "I worked three part-time jobs and still couldn't come up with all the money I needed."

Merry Maid's parent corporation, Chicago-based ServiceMaster, stepped in to help. Through a new program, the ServiceMaster Acceptance Co., Ltd. (SMAC), Janos received direct financing for \$10,000, enabling her to buy a Merry Maids franchise in Las Vegas.

Sales for her 18-month-old franchise average \$3,000 per week. Janos employs 13 people, and her franchise marks the opening of a new territory for Merry Maids, based in Omaha, Neb.

SMAC is a wholly owned financing company of the ServiceMaster Co. Since SMAC's formation in January 1990, more than 50 percent of Merry Maids' new-franchise buyers have used its financing assistance.

In assembling their financing packages, would-be franchisees can also turn to the U.S. Small Business Administration, which last year approved 850 guaranteed loans for franchise investors. Such loans, for up to \$500,000, are provided by local banks and guaranteed by the SBA against default by the borrower.

The SBA also can make a limited number of direct loans to applicants who cannot secure a guaranteed loan and who fall into certain categories—such as those whose businesses would be in high-unemployment areas, and applicants who have disabilities or are Vietnam-era or disabled veterans.

Although it may be needed in other types of start-up business investments, access to large amounts of capital isn't necessarily required when buying a franchise. Keeping an open mind and using some alternative methods of debt structuring may help bring the dream of business ownership closer to reality. ■

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

EDUCATION

Providing Insurance For The College-Bound

If you have a student bound for college in a few weeks, you're facing a bewildering array of insurance-related questions.

For example, will your student be doing without wheels for a while? If so, you may be entitled to save money on your car insurance. "When someone goes to a school more than 100 miles from home," says Richard Hospital, a spokesman for Government Employees Insurance Co. (GEICO), in Washington, D.C., "we give them a lower premium rate, as if they were married." The student has less access to the family car, so the insurance company faces a lower risk—and you pay less.

"When a student does take a car to college," Hospital says, "the rate depends on the location." If your student goes from a metropolitan area to a rural area, the rate will be lower. Of course, the reverse is also true—if the student goes from rural to metropolitan, you'll pay more.

As for medical insurance, most schools include an application for coverage in the preregistration package. "Some of them go so far as to put the premium on your bill," says Robert Hunter, director of the National Insurance Consumer Organization, in Alexandria, Va.

If you already have employer group coverage for your family, the student will usually be included up to age 23 or 25. "In this case," says Hunter, "the school's insurance would just be duplicate coverage."

These days, students often bring with them into dorms or apartments sizable inventories of compact-disc systems, videocassette recorders, computers, and other valuable property that may require special coverage.

According to Barbara Taylor, spokesperson for the Insurance Information Institute, in Washington, "jewelry, stereos, watches, furs, and other high-tick-



PHOTO: © DON HAMERMAN-FOOD, INC.

Your student's campus computer may require special insurance coverage.

et items are usually covered by family homeowner insurance up to \$1,000 each."

Beyond that, you may have to get additional, personal-floater coverage. Computers away at college may also require special coverage.

A caveat: Most family homeowner policies will not cover students' property in off-campus apartments or houses. For that kind of protection, you have to buy a relatively inexpensive renter's

policy (possibly as low as about \$12 a month).

Then there's the matter of insuring the life of the parent or other provider so that tuition, room, and board would be paid in case of death. This coverage is sometimes offered by school-sanctioned insurance companies as part of stretch-out bill-paying plans. "If you need the payment plan, take it," says NICO's Hunter, "but skip the insurance coverage—it's usually way too expensive." ■

CREDIT

Showing An Affinity For Airline Credit Cards

Most airlines nowadays have affinity-card arrangements with MasterCard and Visa so you can earn frequent-flier mileage points for every dollar charged.

But only a few mileage-club members—less than 10 percent—are using the cards. "Lots of travelers just don't think about it, because they haven't made the effort to figure out how much money they can save," says Deborah Reeves, a spokesperson for *Frequent*, a newsletter for frequent fliers, in Colorado Springs, Colo.

The affinity credit card, according to Reeves, is not just another credit card to add to your pack. Frequent fliers, she says, "should consider these cards as replacements for all the cards they're cur-

rently carrying." That way, the mileage points can really add up. The airlines say their frequent fliers charge an average of \$10,000 a year on various credit cards. That translates into 10,000 mileage points, which for some programs count for half a round-trip ticket.

Some frequent fliers who use airline affinity cards for the bulk of their purchases have come up with all sorts of ways to pile up points. For example, one small-business owner charged a new car on his card for \$21,000.

Affinity cards generally have higher interest rates and annual fees than some of the other cards you can get, so you have to watch your spending and bill-paying habits. If you amass large continuing credit balances, the interest you pay could be more than the money you save on free tickets. ■



Peter Weaver is a Washington-based columnist on personal finance.

AUTOMOBILES

Extended Warranties:
What Are They Worth?

When you buy a new car, you work out the best deal you can with the salesperson, then you are passed on to the financial manager, who totes up the charges and asks you if you want to add a few more.

Do you want rustproofing? Paint seal? Extended warranty? Some fleet leasing managers and other professional buyers recommend that you say no thanks to the first two and maybe, just maybe, go for the extended warranty.

A lot depends on who is backing the warranty and how much it costs. If the warranty is backed by some obscure company (read the fine print), it may not be worth the paper it's written on. Over the past year or so, at least a dozen extended-warranty companies have gone out of business, much to the consternation of motorists who have been left with unpaid claims.

The cost is set by the dealer. If sales are slow, a dealer might offer an extended warranty at a reduced price.



PHOTO: GABE PALMER—THE STOCK MARKET

Two firms offer breakdown protection.

In general, an extended warranty promises to pick up a whole list of repair costs after the regular warranty ends. You can extend for five or seven years, with caps of 50,000 or 70,000 miles.

Right now, the main direct backers for extended warranties are General Motors and Ford. Chrysler and some other companies have their own warranties, but the backer is usually an insurance company. Some Toyota dealers, for example, have extended warranties that are backed by Prudential Insurance Co.

Prudential also sells its own form of extended warranty, called mechanical-breakdown insurance, through credit unions, and the company has begun testing sales through mail-order campaigns. Only one insurance company, Government Employees Insurance Co., in Washington, D.C., sells mechanical-breakdown insurance directly to car buyers all across the country.

Before you sign on the line for an extended warranty or mechanical-breakdown insurance, make sure you know who's backing it—and get that backing in writing.

REAL ESTATE

ARMs With A Wider Reach

ARMs—adjustable-rate mortgages—started out with a one-year, fixed-rate reach. After that, the rate varied. If rates stayed the same or went down, you were in good shape. If they went up, your monthly payments went up along with them.

Now, ARMs have fixed rates ranging from as little as six months to as long as seven years, giving home buyers a lot more borrowing flexibility.

"The shorter the fixed-rate period, the lower the interest," says Benny L. Kass, a Washington, D.C., real-estate lawyer and author of *Homebuyer's Checklist*. "But the shorter the fixed-rate period, the more risk you have of paying higher interest later on."

Adjustable-rate periods are designed to make buying a home easier because the lower rates let you qualify for bigger loans. In the recent real-estate market crunch, real-estate agents say, ARMs

have been a godsend. If a buyer is fearful of risking a rise in rates after one year, it's possible to stretch out the safe period to three, five, or seven years.

"A five-year adjustable-rate mortgage, initially based on a 30-year amortization rate," says Kass, "is called a '525'—five years fixed, 25 variable." A seven-year adjustable-rate mortgage is called a "723," and so on.

"These ARMs," Kass says, "are ideal for people who know they will be moving in three, five, or seven years."

When you shop for a mortgage, he says, be sure to find out how much the rate can go up each year after the fixed period ends. And find out which index is used and how the rate is calculated.

You can get more information on mortgages and other home-buying issues by sending \$8 for Kass' 36-page booklet, *Homebuyer's Checklist*, to the National Home Buyer's and Home Owner's Association, 1050 17th St., N.W., Suite 1100, Washington, D.C. 20036.

passengers don't know this." He notes an exception: "Diners Club does give you automatic coverage for all trips, whether the tickets are purchased or come from award programs."

Your own life insurance and medical insurance and your employer's insurance probably cover you, Petersen says, but "you may be underinsured." Your employer's policy may cover you only on business trips—not personal trips.

Travelers flying on award tickets can get insurance for such flights through travel agents or at airport booths.

INVESTING

Electric Utilities As A
Safe Harbor For Investors

Despite the up-and-down waves of business and economic news, one industry—electric utilities—seems to have weathered the storm just fine. You don't hear much about them at cocktail parties, but most utility stocks are quietly paying out handsome dividends and, in some cases, capital gains as well.

"What's good about utilities," says Ralph Presutti, a financial planner with the Advest financial advisory firm in Hartford, Conn., "is the fact that the economy can go up, down, or sideways, and they are always there, always in business, always paying dividends."

You can find a number of good utility stocks that are paying dividends of 6 to 7 percent on your initial investment, and they have a chance to increase in value over the years. If you can automatically reinvest the dividends through a dividend reinvestment plan, Presutti says, "it's a powerful investment tool based on compounding and forced saving."

Buying a mutual fund that has a portfolio of utility stocks, Presutti says, "is the best way to go because you get diversification." And with a mutual fund, you also get automatic reinvestment of the dividends.

Any negatives on the horizon? "Could be," Presutti says, "if state and local regulatory agencies start to take a tougher stance on the rates utilities charge." Wherever possible, he advises, "choose utilities that are in growth areas where local governments don't have tough regulatory track records."

INSURANCE

Frequent-Flyer Coverage

If you're traveling on a free ticket through a frequent-flyer program, you may not be covered by the airline's liability insurance, and you almost certainly won't be covered by the special flight insurance offered by the various credit-card issuers—because your ticket wasn't purchased with a credit card. "When the ticket is not actually purchased," says Randy Petersen, editor of *Frequent*, a frequent-flyer newsletter, "you're not normally covered, and most

For Your Tax File

What you need to know to keep taxes from overtaking you.

By Albert B. Ellentuck

TAX PAYMENTS

Uncle Sam On The Installment Plan

During these hard economic times, more and more people are having trouble paying their bills—including their bills from the Internal Revenue Service. What many don't know, however, is that you can negotiate with the IRS on your payment schedule.

What do you do, for example, if you're ready to file your return and you don't have enough money to pay your tax bill?

First of all, never fail to file a return or neglect to pay just because you can't pay in full. Penalties and interest will multiply.

You should file your return and pay as much as you can with the return. In addition, include a letter explaining the situation and offering to pay a certain amount each month until the liability and interest are paid off.

Despite your note, you probably will

Installment Agreements With The IRS

Fiscal Year	Total Number
1987	602,000
1988	710,000
1989	843,000
1990	1,490,000

Source: Internal Revenue Service

receive collection notices. When the first one arrives, contact the IRS officer listed in the notice and repeat your offer.

In the meantime, you should continue to make installment payments under the schedule specified in your letter, even though the IRS may not have acknowledged it yet.

The IRS officer will be able to sit down with you, analyze your financial situation, review your offer, and either approve it or work out some other payment arrangement.

The IRS recently announced that it is reviewing its approach to monthly installment programs to see if the arrangements can be liberalized. Even under the existing provisions, the number of installment agreements has more than doubled over the past four years. (See the chart for details.)

Remember, communication with the IRS is key. Don't ignore the agency, it will just exacerbate the problem.

ESTATE TAXES

Trust Arrangements

Estate-tax laws were amended some years ago to allow for a full marital deduction on gifts or bequests to a surviving spouse. But if you are worth more than \$600,000, your estate eventually could be hit with a large estate tax.

Suppose your assets are worth \$850,000. If your will leaves everything to your spouse, there would be no tax on the "first" estate—the estate of the first spouse to die; all property left to the spouse (the \$850,000) is exempt from estate tax under the full marital deduction.

But what about the "second" estate—the estate left by the surviving spouse? Unless that spouse remarries, there is no spouse to whom the funds would go, and so the marital deduction would not apply. The estate would be eligible for the \$600,000 exemption that is applied

to every estate, of course, but the remaining \$250,000 would be subject to a tax of over 28 percent, or over \$70,000.

In such situations, knowledgeable estate planners often use two trusts—a "bypass trust" and a marital-deduction trust—which can be provided for in the wills of both spouses and are set up while both spouses are still living.

The "bypass trust" is set up for \$600,000 to give the surviving spouse the income on that amount for his or her lifetime. This trust is subject to tax in the first estate, but it "bypasses" the second estate and is not included there for estate-tax purposes.

The marital-deduction trust, set up in this example for the remaining \$250,000, will be taxable in the second estate only if that estate's assets exceed \$600,000 but not in the first estate.

Under this approach, the first estate would amount to \$600,000. Since the first estate's exemption of \$600,000 would fully cover this amount, there would be no estate tax at all. The second estate would be \$250,000 and would be fully covered by its own \$600,000 exemption. Thus, the two-trust approach generates a tax savings of \$70,000.

Before proceeding with such plans, consult an attorney who specializes in estate planning.

CLARIFICATION

Age-Based Profit Sharing: There Are Limits

In "A Break For Older Business Owners," in June's column, we discussed age-based profit-sharing plans. The IRS has proposed regulations to make such plans acceptable. (These plans permit larger company contributions for older owners—useful for those who got a late start in building their own retirement plans because their firms could not afford contributions in early years.) However, in our example, we neglected to note the \$30,000 contribution limit per participant for all qualified plans.

Consider a 55-year-old owner who earns \$125,000 a year and has two employees—a 35-year-old making \$50,000 and a 30-year-old making \$25,000. Under the traditional profit-sharing plan, the company could contribute a maximum of 15 percent of each one's salary, or \$18,750 for the owner and \$11,250 altogether for the two employees. Under an age-based plan, however, the company—using "present value tables"—could contribute \$26,620 for the owner (still under the \$30,000 limit) and \$3,380 for the two employees. This results in a \$7,870 increase in the contribution for the owner and that much less for the others.



Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

PHARMACEUTICALS

Off The Shelf

My company is a wholesale pharmaceutical distributor, and our only source of business is government contracts. We would like to expand into supplying pharmacies, but we need some help on what products to stock.
S.C.C., Haddonfield, N.J.

Will Williams, vice president for industry affairs of the National Wholesale Druggists' Association, can offer you some guidance on how to expand your market. He says most members of the association carry over 95 percent of the drugs a pharmacy needs. Write or call Williams at the National Wholesale Druggists' Association, 105 Oronoco St., Alexandria, Va. 22314; (703) 684-6400. ■

WHOLESALE

Here Comes Christmas

How do I sell Christmas items at the wholesale level?
L.D., Greensboro, N.C.

Our informal survey of 10 trade associa-



tions representing various industries disclosed that wholesalers typically rely on trade shows for the sale of their products. Cheri Vance, customer-support specialist with the Trade Show Bureau, suggests that you look into using a trade show to market your products. "It is a very effective advertising medium because it reduces the need for sales calls," she says.

The Trade Show Bureau, a nonprofit group that provides information on the trade-show industry, has a free informa-

tion packet that contains a publications list, literature on the bureau, and an order form. The packet also offers a detailed overview of the trade-show method of selling and a description of trade shows and how they work.

For more information, write or call Vance at the Trade Show Bureau, 1660 Lincoln St., Suite 2080, Denver, Colo. 80264; (303) 860-7626.

The publication *1991 Trade Shows and Exhibit Schedule*, published by Bill Communications, lists all the trade shows in North America—more than 11,000 listings.

The book costs \$130 plus \$12.30 shipping. Major credit cards are accepted, or you can be billed. For more information, contact Betty Chadwick at Bill Communications, 1-800-253-6708. ■

INTERNATIONAL TRADE

Latin Beauty

Our company manufactures cosmetics and has been in business for more than 65 years. How can we obtain a list of all the cosmetics companies throughout Latin America?
A.P., Hackensack, N.J.

Contact an international trade representative at the New Jersey Division of International Trade of the U.S. Department of Commerce. The office maintains an export contact list containing the names, addresses, and telephone numbers of foreign importers of U.S. products.

The list may be tailored to meet your exact specifications, such as by product or by countries.

You can purchase a list for \$10 for the first 40 names and 25 cents for each additional name, payable by check or money order.

For the same price, you can receive the list on mailing labels.

To obtain more information, write or call the New Jersey Division of International Trade, P.O. Box 47024, Newark, N.J. 07101; (201) 648-3518.

For help in locating Commerce Department field offices in states other than New Jersey, check the blue pages of your telephone directory.

If you prefer, you can call the U.S. Department of Commerce's Trade Information Center at (202) 377-3181. ■

RETAILING

Sweet And Special

I am starting a sweet shop. I need information on wholesalers for sugar-free candy and specialty chocolates.
L.M., Fort Smith, Ark.

Start with the membership directory of the National Candy Wholesalers Association. The publication lists 900 candy distributors and more than 500 manufacturers, including those that produce sugar-free candy.

The directory costs \$36, payable to



the association by check. Place your order with Michelle Motture at the National Candy Wholesalers Association, 1120 Vermont Ave., N.W., Suite 1120, Washington, D.C. 20005; or call her at (202) 463-2124.

Another source of information is the annual *Candy Buyers Directory*, which lists candy importers, domestic candy companies, brokers, and industry organizations.

To order the directory, send a check for \$35 to MC Publishing, 175 Rock Road, Glen Rock, N.J. 07452. For more information, call (201) 652-2655.

Tools For Learning

I am interested in starting a retail school-supply store. I need information on this kind of business as well as suppliers.

D.J.M., Richmond, Va.

Jeannine Weaver, membership manager of the National School Supply and Equipment Association, says a store typically carries instructional materials

such as workbooks, reading books, notebooks, pencils, crayons, rulers, and general school supplies and equipment.

The association offers a free pamphlet, *Operation Observation*, that gives a firsthand look at running a school-supply store. Another free pamphlet, *Pro-*



file of a *Teacher Store*, describes a retail store that specializes in selling educational products.

If you wish to obtain either or both publications, write or call Jeannine Weaver at the National School Supply and Equipment Association, 8300 Colesville Road, Suite 250, Silver Spring, Md. 20910; (301) 495-0240.

WORKER LITERACY

Reading On The Job

I need information on literacy in the workplace. Where do I go?

J.M., Gainesville, Fla.

Literacy Volunteers of America, Inc. (LVA) conducts about 400 community programs aimed at educating illiterate adults.

LVA's free information packet, "Literacy Is Your Business," contains articles and advice on occupational literacy and effective programs to improve on-the-job literacy skills. It is available from LVA, 5795 Widewaters Parkway, Syracuse, N.Y. 13214; (315) 445-8000.

A free quarterly newsletter, *The Reader*, published by the Business Council for Effective Literacy, Inc., offers information on companies' in-house basic-skills training programs. Contact the council at 1221 Avenue of the Americas, 35th Floor, New York, N.Y. 10020; (212) 512-2415.

In addition, the October 1988 *Nation's Business* cover story, "Can Your Workers Read?" covers the subject in detail. To order a copy, send \$1.99 and the reprint order form on Page 61 of this issue (request reprint No. 8725) to *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

ENTERPRISE

Fragrance Facts

Where can I get information on starting a perfume business?

M.S.M., Granada Hills, Calif.

Write to Annette Green, executive director of the Fragrance Foundation. Include in your letter exactly the information you need, such as how to locate suppliers, how to pick a retail location, industry trends, start-up costs, and marketing advice. Green will reply to you by mail.

The Fragrance Foundation is at 145 East 32nd St., New York, N.Y. 10016.

HOW TO ASK

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- 3. Not sure

2. If yes, how important would you say such monitoring is to the evaluation of workers?

- 1. Very important
- 2. Somewhat important
- 3. Unimportant

3. Should employers be required to notify workers in advance that their work may be electronically observed?

- 1. Yes
- 2. No
- 3. Not sure

4. Should employers be required to signal workers and customers when they are being monitored?

- 1. Yes
- 2. No
- 3. Not sure

5. Should employers be prohibited from using in employee evaluations information collected electronically?

- 1. Yes
- 2. No
- 3. Not sure

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Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them.

Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Heat Rises Over Wetlands

Concerns over the definition and regulation of wetlands are generating combative land-use debates in the 102nd Congress.

At issue is not whether wetlands

should be protected but whether all wetlands should continue to receive equal protection, even though not all wetlands serve the same purposes, offer the same use potential, or have equal value.

Current regulations define a wetland as an area with moist soils, a periodic source of water, and vegetation suited to moist soils.

The most controversial criterion is that water must be present 18 inches below the surface for at least seven consecutive days during the "growing season." This criterion has greatly expanded the size of the areas regulated as wetlands.

To address the increasing complaints over the current broad definition of wetlands, Rep. James A. Hayes, D-La., has introduced a bill—H.R. 1330—that would provide a more reasonable approach to wetlands regulation.

Hayes' legislation focuses on the functions and values of specific wetlands rather than on broadly defined wetlands characteristics. It would establish three wetlands classifications with regulations for each, and it would compensate landowners whose property is classified as a wetland.

Sen. John Breaux, D-La., is expected to introduce a similar bill.

Urge your representative and senators to support a more reasonable approach to federal wetlands restrictions, such as the one proposed by Hayes.



ILLUSTRATION: RICHARD GAGE

The Merits Of Trade With China

President Bush's plan to extend China's most-favored-nation trade status triggered sharp controversy in Washington over the merits of such a policy.

The trade designation alone created confusion for many Americans. While "most-favored-nation" (MFN) status implies something quite special, it currently applies to 160 countries. Only a handful of communist countries, such as Cuba, have a lesser trade status.

The U.S. has included China on its MFN trade list since 1979.

Like the Bush administration, the U.S. Chamber of Commerce believes it is in the long-term best interests of the U.S. and the Chinese people to continue the MFN relationship.

Through this more-open trade relationship, the U.S. can remain actively engaged with the Chinese and thus have a greater opportunity to encourage democratic and human-rights reforms in China.

The Chamber also believes the loss of MFN status would undermine Chinese reforms to date and would cause China's leaders to retaliate by withdrawing MFN treatment for U.S. exports to China.

Bills to deny MFN status were introduced in the House by Rep. Gerald B.H. Solomon, R-N.Y., and Rep. Barney Frank, D-Mass., and in the Senate by Sen. Daniel Patrick Moynihan, D-N.Y. Several other bills conditioned China's MFN status on human-rights issues.

Urge your representative and senators to support President Bush and the people of China in the continuing fight to retain MFN status for China.



Financing Campaigns With Tax Dollars

The Senate has approved legislation that would prohibit political-action committees (PACs) from participating in federal elections. The measure also would authorize taxpayer financing of Senate election campaigns.

The House is expected to consider similar legislation.

The U.S. Chamber of Commerce, which strongly opposes the measures, believes taxpayer financing would dangerously extend the federal government's role in a traditionally voluntary political process based on individual choice.

According to the Chamber, citizens should not be forced to support, through their tax dollars, political candidates whose philosophies they may oppose.

Having long encouraged broad-scale citizen participation in the political process, the Chamber also believes that PACs—which represent a pool of individuals who contribute freely and whose contributions are fully disclosed—encourage citizen involvement. The Chamber believes organized political activity is healthy.

The goal of campaign reform should be to increase, not decrease, public participation in the political process, particularly in light of declining voter turnout in recent elections, according to the Chamber.

Contact your representative and senators and urge them to maintain privately financed campaigns and the current voluntary political process. Tell them that individuals should remain free to donate money to candidates, political parties, and PACs of their choice.



Editorial

Listen Closely When You Hear The Words "Tax Fairness"

Bill and Bob Healey, co-owners of Viking Yachts, a boat-manufacturing company in New Gretna, N.J., know more than they ever wanted to know about "tax fairness," a popular concept on Capitol Hill these days and one likely to be discussed even more frequently in the months ahead.

What leaders of the tax-increase bloc in Congress refer to as "tax fairness" has largely been responsible for the Healey brothers' laying off of 1,150 of their 1,400 employees and closing one of their two boat-building facilities over the past several months.

Specifically, the business and its workers have been hurt by a new tax imposed Jan. 1 on such luxury items as boats, autos, airplanes, jewelry, and furs with prices above a certain amount. The tax was enacted as part of last year's five-year, \$500 billion deficit-reduction law.

"Fairness" was a major justification for the tax. Congress saw it as a relatively harmless way to raise revenue for the government by penalizing the rich without hurting lower- and middle-income individuals, who seldom buy such luxury items.

But the combination of the luxury tax and the slow economy "has killed us," says Bill Healey. "We've never seen anything like this."

The boat industry alone, which is made up primarily of small, family-owned businesses, estimates it will lose more than 19,000 jobs this year because of the tax.

Beech Aircraft Corp., in Wichita, Kan., says it lost 39 airplane sales in the first quarter of this year as a direct result of the tax. Beech had planned to add 500 jobs in 1991 but has instead laid off 20 workers. It says the 39 lost sales would have provided a year's worth of work for 255 employees.

Auto, jewelry, and fur dealers say the tax is clearly hurting them, too.

One of the most ironic results of the tax is that it is

penalizing disabled automobile buyers, whose vehicles often require specialized equipment that can push the cost of their autos above \$30,000, the point beyond which the luxury tax on autos is assessed.

The tax is 10 percent of the amount of the purchase price above \$10,000 for furs and jewelry, \$30,000 for autos, \$100,000 for boats, and \$250,000 for airplanes.

This means a customer purchasing a \$200,000 boat this year from Bill and Bob Healey would be charged \$10,000 more in taxes than the buyer would have been charged in the past. That's a fairly strong incentive not to buy.

Clearly, Congress goofed when it passed the tax. However, this was not the first time Congress has failed to consider fully the potential impact of its tax-related actions. The luxury tax simply underscores the lack of understanding about tax policy among most federal lawmakers.

The fact is that taxes are burdens, and tax hikes don't simply burden the people or the businesses they target. They have a ripple effect throughout the economy. In this case, the ripple has washed away jobs of employees who worked for the companies that make and sell the products subject to the tax.

What's worse, if industry projections hold true, the federal government won't even benefit from the pain it has caused those workers.

While the Treasury projected the tax would raise \$1.5 billion in revenue for the government over five years, industry projections suggest that the government will end up losing revenue because of the sales decreases and employment reductions that the tax is causing.

State governments will suffer too—because of lower sales-tax receipts from fewer luxury goods being sold.

So as the talk of "tax fairness" heats up again, keep in mind the ripple effect. The next time Congress imposes a tax hike under the guise of fairness, the ripple may reach you.

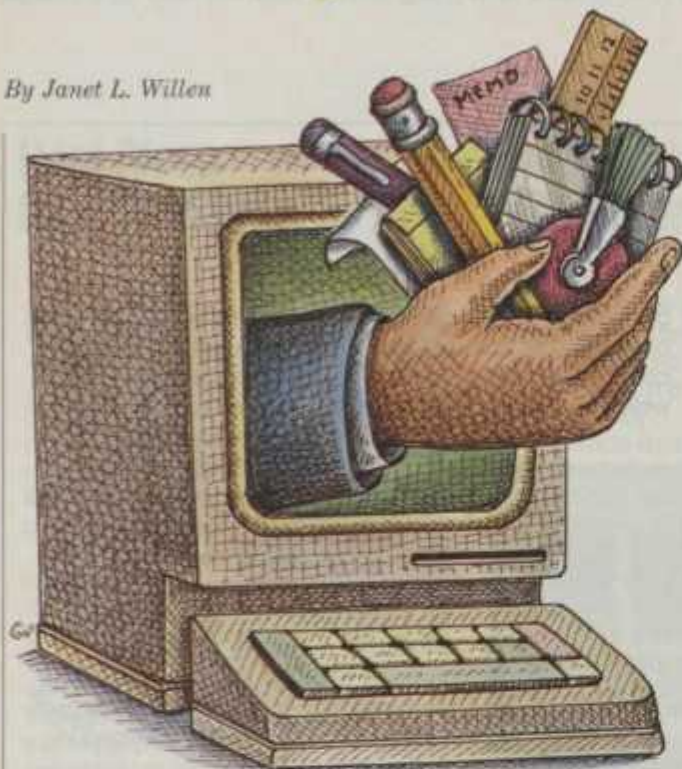


PHOTO: T. MICHAEL KEZA

Boat manufacturer Bill Healey oversees workers applying final touches to a newly built cabin cruiser.

Free-Spirited Enterprise

By Janet L. Willen



ILLUSTRATIONS: CHARLES WALLER

DESKTOP SUPPLY ORDER

When you're too busy to leave your desk to get your office supplies, you can bring the store to you.

Jacobs Gardner, an office-supply company based in Hyattsville, Md., offers small and mid-sized businesses a 24-hour computer online purchasing system through its Penny Wise service. Customers order supplies from the electronic catalog, and the computer says if the items are in stock. Delivery is the next day.

For computer illiterates or, simply, more traditional shoppers, Penny Wise accepts orders by phone, fax, or mail.

HAPPY FAXES

Keep an eye on your fax. You never know when it might bring a message from the pages of *Faxable Greeting Cards*, a publication from Workman Publishing.

The book contains 101 cartoon greetings printed on perforated pages that can be

removed, photocopied, and faxed. The messages include birthday, anniversary, and get-well greetings as well as invitations to happy hours, showers, and Super Bowl



parties. And for those who dare, there are even love notes to fax.

EARS ON THE ROAD

An idea from Robert Magee, of RWM Associates, in Pottomac, Md., can turn a business



trip into a guided tour.

Magee's Ride With Me audiotape series uses stories, interviews, and even excerpts from radio broadcasts to describe areas along the paths of U.S. interstate highways. Each tape runs about 90 minutes. Comments are keyed to mile markers, so you hear about places as you reach them.

Magee's nine-tape I-95 series can take you from Massachusetts to Florida. Highlights of the tape tours include stories of Revolutionary War events, of Bluebeard's buried treasure in New Jersey, of the 1959 Knox Mine Disaster in Pennsylvania, and of Florida's Disney World.

Other tapes detail the regions around I-10 through Texas and I-81 through Pennsylvania and the Shenandoah Valley, and roads in Delaware and in the Williamsburg, Va., area. Forthcoming tapes include parts of I-80 from the New York vicinity to Chicago and I-75

from Cincinnati to the Orlando, Fla., area.

PLANS AHEAD

Retailers who are too busy to plan should look at *The Yearbook* from BE Smart Publishing of Newport Beach, Calif. This 76-page retail planner and perpetual calendar, prepared by consultant Barbara Wold, is designed to help retailers market, manage, and organize.

For each month there are tips and facts on issues like advertising or motivating employees. Monthly calendars are filled with suggested promotional events.

There are even eye-opening reminders like this one for the first Wednesday in August: "Start cleaning out stockroom for Christmas merchandise."



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